REPORT

to the Governor in Council on Rates and Availability of Fire, Other Property and Liability Insurance for Homeowners, Tenants, Non-profit Organizations and Small Businesses

November 1, 2004

NOVA SCOTIA
Insurance Review Board

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Report on Rates and Availability of Fire, Other Property and Liability Insurance for Homeowners, Tenants, Non-Profit Organizations and Small Businesses

Nova Scotia Insurance Review Board

November 1, 2004

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Executive Summary

The Nova Scotia Insurance Review Board (the Board) began its examination of the rates and availability of fire, other property and liability insurance for homeowners, tenants, non-profit organizations and small businesses, by conducting a literature search to identify the issues. The Board held public hearings throughout the Province, in nine locations. In addition, the Board solicited information from industry by questionnaires, met with industry representatives, both the Insurance Bureau of Canada (IBC) and the Insurance Brokers' Association of Nova Scotia (IBANS), and with individual companies. Numerous telephone interviews were also conducted. This report discusses the issues that have been identified, the findings of the Board, and provides 23 recommendations for Government and the insurance industry.

The literature search, conducted with the assistance of the study consultant (Mercer Oliver Wyman Actuarial Consulting Ltd.), provided information on the general situation of affordability and availability of insurance and identified specific problem areas currently affecting insurance in Nova Scotia, as well as issues that may affect us in the future. Some of the current problem areas identified by the literature search were wood stoves, oil tanks, older homes, recreation activities, and daycares, while credit score, asbestos claims and mould claims were identified as potential problem areas.

The study consultant also undertook a review of insurance industry data and in so doing, identified a number of problems with the data. Information that is available is relatively old; only represents about half of the insurers operating in Nova Scotia; lacks information and details; may not be consistently coded by insurers; and for commercial insurance, lacks actuarial credibility. The commercial insurance data that is available does not appear to justify the type of rate increases and market restrictions that have occurred in recent years based upon the Nova Scotia risk experience. However, due to the small portion of the insurance market that Nova Scotia represents, it may be necessary to pool our experience with a larger group that is, the rest of Canada.

The summary of the representations from the public in Section 3 sets out various examples of individuals and groups that have had problems with affordability and availability of insurance.

Non-profit organizations are most clearly identified as the group with the most severe problems of affordability, followed by the rest of the commercial market. Liquor liability and the large premium increases for this risk, as well as the withdrawal of insurers from this market, has affected both non-profit groups that serve alcohol as part of their fundraising, and bars, taverns and other alcohol sales establishments. The sports and recreation sector reported major increases in insurance premiums and this has impacted businesses in this sector as well. Many groups dealing with children and youth have also experienced difficulty obtaining affordable insurance, in part due to the risk of sexual abuse. Most of these organizations have never had a claim and do not understand why their rates have increased between 35% and 300% or more.

Homeowners overall, did not report severe problems of either affordability or availability. *Insurability*, that is the ability of a particular risk to obtain insurance when that insurance is available in the market, was the problem most identified by homeowners. The lack of insurability is the problem that is often identified by the public as a problem with availability. The Board heard representations dealing with insurers requirements for home maintenance, roof repairs, electrical system and plumbing system updates and the like. In a hard market such as Nova Scotia experienced after 2001, the insurance industry tightened up their underwriting criteria, limiting the risks that they were willing to accept.

The insurance industry, in addition to their difficulties with liquor liability, claimed that oil spills have been a reason for increasing premiums and issues of insurability. The pros and cons of an oil tank replacement program, training of installers, maintenance and tank inspection as well as education of the public and industry are discussed.

After analyzing the information provided by industry on how premiums are determined, and data provided by IBC and the industry, the Board has found that premiums for commercial insurance are largely based on individual assessments by underwriters. Data that is available for commercial insurance is not actuarially credible, resulting in premiums that may or may not reflect the actual risk insured.

Fortunately, the hard market appears to have run its course, and soft market conditions are beginning to emerge. As a result, the insurance availability and affordability problems that Nova Scotians have experienced, should generally improve. But the information the Board has gathered and which is presented in this report suggests that there are underlying issues affecting affordability and availability of insurance that go beyond the cyclical nature of insurance that need to be addressed by both the Government and the insurance industry.

The 23 recommendations of the Board, contained in Section 9, attempt to address these underlying issues such as:

- Collection of insurance claim and expense statistics;
- Communications between insurance companies and insureds (including appropriate notification of rate increases, coverage modifications and requisite home improvements);
- Understanding of Provincial legislation;
- Oil spills claims reductions;
- Recognition of risk management programs;
- Resolution of insurance premium and coverage disputes, and disputes regarding personal information captured by insurers;
- Broader range of lower cost insurance products;
- Understanding by the public of insurance matters; and
- Industry program for availability assistance.

The recommendations also provide suggestions intended to assist Government to monitor rates and trends such as:

- Mandatory filing of homeowners insurance rate and underwriting manuals; and
- Publication of homeowners' rate profiles.

The recommendations to both Government and the insurance industry are intended to help alleviate the difficulties that Nova Scotians experienced during the hard insurance market. We conclude our report recognizing that Nova Scotia is but a small part in a global insurance market.

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Introduction

The Nova Scotia Insurance Review Board (the Board) is required under section 16B(5) of the *Insurance Act, R.S.N.S. 1989, c. 231* to,

> "conduct an examination of the rates and availability of fire, other property and liability insurance for homeowners, tenants, non-profit organizations and small businesses and report to the Governor in Council on or before the first day of November 2004."

To carry out its mandate, the Board retained Mercer Oliver Wyman Actuarial Consulting, Ltd. (Mercer) for actuarial and other advice on matters related to this study; throughout this report, Mercer is referred to as the "study consultant." With the assistance of the study consultant, the Board performed a literature search on the subject; reviewed available insurance industry premium and claims data; conducted public hearings throughout the province and solicited written presentations from the public; conducted telephone interviews with nine organizations; sent a questionnaire to leading insurance companies and specialty market general agents operating in Nova Scotia, to solicit additional comments, opinions, and information on the matter; and interviewed representatives of several of the larger insurers, the Insurance Bureau of Canada (IBC), the Insurance Brokers Association of Nova Scotia (IBANS), the IAO Actuarial Consulting Services Inc. (IAO), the Canadian Heating Oil Association, the Superintendent of Insurance for Nova Scotia, various individuals in provincial and federal government, and other insurance regulators. A glossary of terms used throughout this report is contained in the Appendix-Exhibit 1.

Mandate for the Study

The Government of Nova Scotia is concerned that property and liability insurance is not readily available, nor affordable, to property owners, tenants, non-profit organizations, and small businesses. This concern arises from numerous complaints it has received from the public, and published news citing examples of sharply rising insurance premiums and the loss of insurance coverage. Because property and liability insurance is so critical to the economic well-being of Nova Scotia and its citizens, the Government passed legislation to have the Board conduct an examination of the rates and availability of fire and other property and liability insurance for homeowners, tenants, non-profit organizations, and other small businesses, and report to the Governor in Council on or before the first day of November 2004.

Outline of the Study

The Board conducted the study in the following manner.

- The Board had the study consultant conduct a literature search, review available and relevant insurance industry premium and loss statistics and personal property rate manuals, and assist in preparing questionnaires and interviewing insurance industry representatives. The literature search is summarized in Section 5, and the results are attached as Appendix-Exhibit 2. A summary of relevant premium and loss statistics reviewed by the study consultant is presented in Section 6. A summary of the review of the personal property manuals of leading insurers operating in Nova Scotia is attached as Appendix-Exhibit 3.

- The Board invited and received oral and written submissions from the public, insurance companies, the IBC, and IBANS. A copy of the Notice of Public Hearing is attached as Appendix-Exhibit 4. Public hearings were held at the following sites:

  Port Hawkesbury – May 13
  Sydney – May 14
  New Glasgow – May 19
  Amherst – May 20
  Liverpool – May 26
  Yarmouth – May 27
  Middleton – May 28
  Truro – May 31
  Halifax – June 1 and June 2

  Forty-nine private citizens or private businesses, and representatives of over 1,000 organizations, towns, or municipalities made oral presentations to the Board at these hearings. Written submissions were received from 50 individuals and organizations. A list of all of the presenters at the public hearings is presented as Appendix-Exhibit 5. A list of all those from the public that submitted written testimony is attached as Appendix-Exhibit 6.

- The study consultant conducted telephone interviews with nine organizations and they are listed in Appendix-Exhibit 6a.

- Although representatives from the insurance industry were invited to speak at the public hearings, no insurers did so. Representatives from IBANS and a few brokers did speak at the public hearings. Due to the lack of participation by insurers and the need for the information that insurers could provide, the Board prepared and released a questionnaire to the leading insurers of property & liability insurance in Nova Scotia, representing approximately 75% of the market. The Board then invited representatives from these companies to meet with the Board to elaborate on the information they had provided. A copy of the questionnaire is attached as Appendix-Exhibit 7. A list of those companies to whom the questionnaire was sent is attached as Appendix-Exhibit 8. A chart that summarizes the results of the questionnaire is attached as Appendix-Exhibit 9. A list of those companies that agreed to be interviewed by the Board is attached as Appendix-Exhibit 10.

- The Board also met with representatives from both IBC and IBANS on August 18, 2004.

- The Board prepared and released a questionnaire to 14 specialty market general agents, and followed up the questionnaire with phone discussions with representatives of 9 of these companies. A copy of the questionnaire, a list of companies to whom the questionnaire was sent, and a list of those that were contacted by phone are attached as Appendix-Exhibit 11, Appendix-Exhibit 12, and Appendix-Exhibit 13, respectively.

- The Board and the study consultant met or spoke with representatives of various groups, the Canadian Oil Heating Association, the Superintendent of Insurance for Nova Scotia, the IAO, individuals in provincial and federal government departments, and other insurance regulators.

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Representations of the Public

The Board received oral and written testimony from private citizens and representatives from various organizations, towns, and municipalities. A list of those the Board heard from is presented in Appendix-Exhibit 5 and Appendix-Exhibit 6.

While the turnout was less than what had been expected, the hearings confirmed that there are numerous groups in Nova Scotia that have experienced difficulties in obtaining insurance at affordable prices.

The Board also heard from the public on issues related to the insurability of a risk, which is often confused by the consumer with the availability of insurance.

A summary of the general concerns expressed by the public to the Board at the hearings and in written submissions follows.

Homeowners Insurance

1. Large rate increases, coverage restrictions, policy cancellations and non-renewals of coverage.

2. Lack of reasons for rate increases, coverage restrictions, policy cancellations and non-renewals of coverage.
3. Inadequate notice period for rate increases, coverage restrictions, policy cancellations, non-renewals of coverage, and required home repairs.
4. Lack of uniform standards for home construction and repairs such as age of roof, and electrical, heating, and plumbing systems.
5. Lack of clear standards for the construction and installation of oil tanks, and lack of loss prevention information for homeowners with oil tanks.
6. Lack of confidence in the qualifications of home inspectors employed by insurance companies.
7. Inadequate time permitted to implement costly home improvements required by insurers.
8. Reluctance to file a claim for fear that rates will increase or coverage will be restricted or curtailed.
9. Difficulty in finding insurance when existing insurer has denied coverage.
10. Reports that insurers may be discriminating in certain postal code areas.
11. Concern about information about insureds being shared amongst insurers.
12. Inability to resolve disputes with insurers.
13. Difficulties obtaining insurance for heritage homes; more awareness needed by brokers.
14. Some problems in obtaining insurance coverage for older (non-heritage) homes.

The public expressed a variety of concerns, but consistent in their concerns was their perception that large premium increases and coverage restrictions had occurred despite no (or only minor) claims having been made and no changes in operations having taken place.

A summary of the specific concerns expressed by certain groups to the Board at the hearings and in written submissions follows.

Commercial Insurance

1. Profit and non-profit businesses and groups have experienced large rate increases, coverage restrictions (in some cases on needed coverage), or policy terminations over the past couple of years despite no claims or changes in their operations.

2. Lack of reasons for rate increases, coverage restrictions, and policy cancellations or non-renewals.

3. Inadequate notice period for rate increases, coverage restrictions, and policy cancellations or non-renewals.

4. Lack of predictability/stability of insurance premiums over the past few years.

5. Lack of understanding on the part of brokers and insurers of the risk being insured.

6. Failure on the part of brokers and insurers to recognize the risk management practices of the insured.

7. Reluctance to file a claim for fear that rates will increase or coverage will be restricted or curtailed.

8. Difficulty in finding insurance when existing insurer has denied coverage

9. The insurance premium tax is a contributing cause to the escalation of insurance premiums.

10. Lengthy applications required by insurance companies, that vary from company to company and that require many hours to complete in order to find insurance.

Affordability Issues

Homeowners

1. A senior representing the Cape Breton Council of Seniors and Pensioners reported that over the period 2001 through 2004 his property assessment rose between 5% and 6%, while his homeowners insurance premium rose by 30%, 25%, and 15% each year, respectively, for a more than 85% increase over three years.

2. An Amherst resident reported that his home, which was built five years ago, had increased in value by 10%, but his insurance premium had increased by 110%, despite having no claims.

3. Another Amherst man said his insurance went from $294 in 2001 to $478 in 2004, a 63% increase. He stated, "It appears that every time the insurance company changes its name, the required premium changes to a much higher amount."

4. A retired man living in Sambro that is insured under a group plan for federal civil servants reported that his homeowner insurance premium increased from $309 in 1992, to $413 in 2000, to $747 in 2004.

5. One Fall River homeowner wrote, "last year our house insurance went up 47% and this year it went up the other 47%." Another, from Antigonish, wrote, "A 50% increase in two years is, in my view, ridiculous - particularly because this increase does not seem to be based on a well reasoned and logical position (for

> example if I had made a number of claims or if my home was inspected and found in disrepair etc.)."

There are other examples as extreme as these that were presented to the Board; however, the Board also received comments from a number of presenters that personal insurance was not a problem and that the premium increases they experienced were reasonable.

Small Businesses

1. A Cape Breton business owner reported that the insurance on his commercial building went from $600 to $3,000 over a two-year period, and yet he had not had a claim. Another businessman reported an insurance premium increase from $700 (prior owner's policy) to $3,800 for a house that has a kitchen cabinet business operating from its garage.

2. A small sea kayaking business saw its liability insurance premium jump from $1,200 to $2,500 in one year, and was told this was because the principal was so well qualified that the risk of liability increased because of his expertise! An individual that ran a kayak-building course out of his home and garage had been insured for liability under his homeowner policy for a number of years. He reported that his insurance company informed him that he could no longer be insured under his homeowner policy. The alternative of purchasing a commercial liability insurance policy was cost prohibitive. As a result, he was forced to shut down his business. He was also forced to stop teaching at the Maritime Museum due to his inability to get affordable insurance to cover this aspect of his work. The Museum would not or could not provide the insurance for him.

3. A welder, who services small ships, said that his small business insurance premium increased from $4,000 for general commercial liability including theft and fire by an additional $15,000 for liability alone. His insurer newly classified him as a shipbuilder, even though he worked out of his shop. $15,000 was the insurer's minimum shipbuilder's policy premium. He now operates without insurance. He said that he is aware of a number of other welders and small shipbuilders who similarly carry no insurance.

4. An accountant in New Glasgow saw his small business insurance premiums increase from $450 to $1,000 due to the imposition of a new small business minimum premium on a package insurance policy that provides liability and property coverage. He further stated that some of his clients have had $2,500 minimum premiums imposed upon them. Clients without claims were receiving 250% to 300% premium increases due to these minimum premiums.

5. An insurance broker, specializing in commercial insurance, with 25 years of experience, reported that commercial insurance premiums were being increased between $500 and $5,000 in one year. Businesses that were experiencing the largest premium increases were snow removal and janitorial - due to the fear of slip and fall claims - mobile car washers, non-profit groups, bars, recreational groups, off-premise welders, roofers, and stand-alone seasonals, the latter for which premiums have increased from $200-$300 to $1,500. The broker stated that 50% or more commercial business clients experienced at least a 30% premium increase, resulting in some of them going out of business.

6. The Investment Property Owners Association of Nova Scotia indicated that insurance costs for its membership had tripled over the last three years.

7. The owner of a sawmill in Richmond County that produces semi-finished products for export reported that his liability insurance premium increased from $5,000 to more than $13,000 over the past five years.

8. The Canadian Federation of Independent Business (CFIB) provided a written submission stating that their May 2003 survey identified that 78% of the responding members found "the high cost of insurance as their most significant challenge." CFIB represents 5,000 small and medium sized businesses in Nova Scotia.

9. The Nova Scotia Chamber of Commerce in the fall of 2003 surveyed its members, mostly small businesses, and reported that, "liability premiums increases and dropping of coverage were the concerns of those most impacted by the insurance issue."

Tourism Industry Association of Nova Scotia

The Tourism Industry Association of Nova Scotia together with Recreation Nova Scotia, Sport Nova Scotia, The Restaurant Association of Nova Scotia, and the Canadian Volunteerism Initiative - Nova Scotia Network, submitted to the Board a copy of their presentation to Government, Fall 2003, entitled, "Insurance: It's Everybody's Business." The report states that:

1. Insurers were having a particularly severe impact on Bed and Breakfast accommodations, requiring them to carry commercial insurance instead of residential insurance.

2. In the food and beverage sector, in particular bars, lounges, and taverns, rates increased by 25%-300%.

3. "Doubling and tripling of premiums is the norm in this particular segment of the food service sector." Restaurants without a liquor license received premium increases of 20%-40%, and those with a liquor license had increases ranging between 20%-70%.

4. One example in the recreation sector saw a community centre with a quote of $9,000 for its insurance, but it was able to obtain insurance under the umbrella policy negotiated by Recreation Nova Scotia for only $624.

Municipalities

1. The town of Lunenburg reported a steadily rising insurance premium, from $60,000 in 2001 to $121,000 in 2004.

2. The community of New Ross had to discontinue swim lessons due to high insurance costs.

3. The Municipality of Chester has partnered with their Middle School to construct a skateboard park and was asked to cover the insurance "for after school hours

as the facility would be a public recreation facility." They stated, "We received a five page document from our insurance company outlining a number of reasons why not to get into the skateboard park business. Yet statistics show more injuries happening in hockey and soccer."

Non-Profit Sector

1. The YWCA of Halifax reported having to change insurance companies, and in so doing its property and liability insurance premium increased by $17,037 (150%), from $10,895 to $27,932, in one year. The major increase was in liability insurance, which increased 300%.

2. Boys' and Girls' Clubs of Nova Scotia reported an average increase in its insurance premiums for general liability, directors' and officers', and vehicles of 41% in 2002/2003. The Boys' and Girls' Clubs reported that only one in eight Boys' and Girls' Clubs in Nova Scotia carries sexual abuse and harassment insurance because it is simply too expensive for them.

3. In Shelburne, a small non-profit group saw its property insurance premium for rented premises rise from $1,500 to $5,000 in one year.

4. In the municipality of Lunenberg, a non-profit group's insurance premium increased from $3,500 to $10,000.

5. It was reported, and confirmed by both insurers and brokers, that many non-profit organizations were being forced to purchase insurance from the high-risk (substandard) market, whose relatively high minimum premiums contributed to this sector experiencing large premium increases.

6. A number of Trail Associations complained about increases in their premium, including the association in the Municipality of the District of Lunenburg, which reported that premiums have tripled for 2004 over 2003.

7. The Cape Breton Regional Municipality Fire Service Department's insurance premium went from $7,000 to $18,000; most of this increase was for its liability

coverage. The cost of insurance is now 20% of the operating budget of the department.

8. Various Royal Canadian Legions reported significant insurance premium increases. Bridgetown's premium went from $2,500 to $5,000 to $10,000 over a two-year period. A dry legion reported an increase of several thousands of dollars. Another legion, with an insurance premium of $6,000, said that it received a renewal premium quote from its insurer of $12,000, but was able to "successfully" negotiate this down to "only" $9,000, a 50% increase. The Legion in Chester experienced a "drastic" increase in its insurance premium. And a legion in Shelburne reported that it indeed had a claim and that its insurance premium increased from $4,000 to $19,000 as a result. The claim had been for $14,000.

9. The Family Resource Centre of West Hants reported a "drastic" increase in its insurance premium over the past few years, which has severely strained operations. Premiums for property and liability insurance, including directors' and officers' insurance for the Centre increased from $1,649 in 2002 to $2,000 in 2003 and then jumped to $4,000 in 2004. The most significant increases were in the liability coverage and the errors and omissions coverage.

10. A non-profit group, whose purpose is to promote safe paddling, reported that it cannot afford to pay the minimum liability insurance premium of $1,000 to $1,500 quoted by its broker, plus the premium of $800 for officers' and directors' insurance.

11. Childcare and youth counseling centres reported concerns over rising insurance costs.

12. After an increase of 30% in 2002, the South Shore Family Resource Association had its insurance premium increase by another 150%. Both programming and staff have been cut as a result. Its written submission states, "I can only describe it as taking food out of the mouths of the children we serve."

13. The Snowmobile Association of Nova Scotia reported sharp increases in its insurance premiums, without any explanation given, and despite having never experienced a claim in the province in over 10 years.

14. Sport Nova Scotia presented statistics illustrating the increased liability insurance rates of various sports organizations: Boxing was up +157%; Squash: +89%; Judo: +50%; Karate: +50%; Lacrosse: +35%; and Triathlon Kids of Steel: +35%. The Canadian Canoe Association-Atlantic Division had a 78% increase in its liability and equipment insurance rates between 2001/02 and 2004, whilst the Nova Scotia Yachting Association faced a one-year increase of 730% in its general liability and office insurance premium.

15. The Lunenburg Queens Regional Development Agency surveyed 105 non-profit organizations. The results of the survey include: 31% reported that they do not carry insurance for events (cost cited as a major reason); only 32% had directors' and officers' coverage; 27% no longer carry liability insurance on facilities that they own (not justified by the cost of insurance); 6% reported a cancellation of insurance coverage in the past year; 32% reported an increase in their liability insurance premium in the past year; and only 9 out of the 105 said that they had filed a claim since they had begun purchasing liability insurance.

16. The North Queens Community Health Board reported large increases in its insurance premiums.

17. The Maitland and District Development Association successfully negotiated a reduced premium for its insurance, saving $800. However, the overall increase was still 106% for 2004 over 2003. This exceeded their budget by 50%. They requested that the Municipality of East Hants negotiate an umbrella policy covering all volunteer groups providing recreation and leisure facilities for the community.

18. A written submission from the Minas Waves New Horizons Senior Citizen Club states, "unrealistic high premiums…are taking our life style from us."

Availability Issues -- All Sectors

1. The owner of a photo processing business in Cape Breton reported having great difficulty obtaining insurance after he purchased a new piece of photography development equipment. He said that insurers were concerned about environmental standards and told him that photo processing was considered high-risk. The owner contacted Kodak for documentation that the equipment was environmentally safe. Kodak provided him with the documentation, and in so doing told him that they had never heard that their business was considered high risk. The owner reported that the insurer itself had no standards upon which to judge whether or not his equipment was environmentally safe. In the past, the Department of Environment would have provided a letter of compliance that would have satisfied the insurer. However, this service is no longer available.

2. A teen health centre reported having its insurance discontinued because, according to its insurer, it provided counseling services. However, only a nurse educator provided counseling, and she carried her own liability insurance. Still, the health centre could not get coverage. After a very extensive search, over a period of months, insurance from outside the province was found at a premium of $1,000, which is high for the centre. The centre had to accept the coverage at the $1,000 price, or else it would have had to cease operations.

3. The Nova Scotia Trails Federation, a provincial umbrella trail group, had its policy terminated, leaving the trail groups without insurance for a period of time.

4. A Wett inspector said an insurer hires him to inspect fireplaces, wood burning stoves, and the like, but will not sell him errors and omissions insurance coverage.

5. One broker advised the Board that she is no longer permitted to write festivals.

6. Although the Board received some representations regarding difficulties obtaining insurance for heritage homes, the Heritage Property Association, having just surveyed its membership, indicated that availability was not a

problem. The Association said that when the issue first became public, it attempted to meet with the IBC, but received a poor response. It then proceeded with its own membership survey. The survey indicated that availability is not a problem, but that there is a need for the Association to educate insurance companies and brokers about the provisions of the Heritage Property Act.

7. The town of Lunenburg reported that only two insurers responded to its recent tender for municipal insurance.

8. A legion reported having to cancel a one-day youth track and field event because its insurance would not cover the participants.

9. A representative from the childcare industry reported that many insurance companies are refusing to quote on childcare centre business.

10. In the spring of 2003, most Children's Aids Societies had their commercial liability insurance coverage cancelled, necessitating the Government, by Orders in Council, 2003-154 and 2003-213 (Appendix-Exhibit 14) to provide an indemnity of liability. The Province intervened to assist the Societies in obtaining insurance, which was eventually obtained by the Societies from a local broker, but from a company outside of Nova Scotia. With the help of the Province they were able to locate affordable insurance.

11. An individual commented that a number of homeowners had received grants in the 1970's from the federal government because they switched from oil to coal heat, only to be told now, 30 years later, by the insurance companies that unless they switched back to oil they would lose their insurance coverage.

12. The Nova Scotia Sport and Recreation Commission reported insurance availability problems, and cited, as one example, a martial arts program that cannot get insurance coverage.

13. Sport Nova Scotia reported that its members are facing difficulties in obtaining insurance, despite having had no claims.

14. The YWCA reported that its insurer withdrew from the market, causing it to "scramble" to find another insurer.

15. The East Pubnico Playground Committee had its policy terminated. The small community group applied for coverage through a specialty writer, and was denied. Quotes of $2,500 were eventually found, but as this premium was not affordable, the group has had to shut down its playground.

16. Saint Leonard's Society of Nova Scotia, a non-profit organization serving men and women in conflict with the law, had their commercial general liability insurance expire. The carrier ceased to offer this coverage. They have been unable to obtain coverage and now operate without it. They have never made a claim.

17 The report from The Tourism Industry Association of Nova Scotia, Recreation Nova Scotia, Sport Nova Scotia, The Restaurant Association of Nova Scotia, and the Canadian Volunteerism Initiative-Nova Scotia Network, referred to previously states, "...the festivals, events, and attractions sectors are experiencing a flat refusal from insurers through their brokers, with many of whom they have enjoyed years of good business relationships." It further stated, "It is also alarming to consider how many businesses will not re-open in 2004 because they either do not have insurance coverage or they can no longer afford it."

4

Representations of the IBC, IBANS, General Agents, and Insurers

The Board sent a questionnaire to 19 of the largest writers of personal property, commercial property, and commercial liability insurance in the province, and to 14 general agents. Fifteen companies and 12 general agents responded to the questionnaire. The Board also interviewed representatives from 7 insurers, IBC, and IBANS; and the study consultant conducted phone interviews with 9 of the general agents.

A copy of the questionnaires and a summary of the responses from the large insurance companies are presented as Appendix-Exhibit 7, Appendix-Exhibit 11, and Appendix-Exhibit 9.

A summary of the comments made by the insurance industry representatives follows. As insurance companies operate independently of one another, the comments below should be viewed as generalizations about the insurance environment and insurance company operating practices, and not necessarily applicable to each and every insurer operating in Nova Scotia.

1. Nova Scotia accounts for approximately 3% of the personal property insurance premium written in Canada and about 2% of the commercial property and liability insurance premium written in Canada.

2. The insurance industry has been experiencing a hard market, particularly in commercial property and liability insurance, over the past few years in Nova Scotia as well as throughout Canada (and the United States). During this hard market period, which was reported as being longer than usual, insurers reported having suffered losses. Relatively large (double digit) average annual rate increases were taken, with some risks receiving higher than average increases. In addition, marketing became more restrictive during this period: insurers limited their writings in certain markets and in some cases withdrew from markets, and insurers became more selective on the individual risks that they wrote within certain markets.

3. Severe weather, large fire losses, leaking oil tanks, and an increase in the number and cost of liability claims - particularly liquor liability and slip and fall claims - were cited as factors contributing to the losses insurance companies suffered over the past five years.

4. The recent hard market followed a soft market period in Nova Scotia (and the rest of Canada and the United States) in which rates were very competitive and insurers were more willing to accept risks. The Board was advised that, in general, the premiums that insurers are charging today are at or below the same level as what they were prior to the beginning of the last soft market period.

5. The hard market is just beginning to soften – rates are stabilizing or are being reduced, and insurance is becoming more available. This softening is more evident in the commercial property and liability insurance, and is expected to follow in personal property insurance. However, "risk acceptability" has not yet softened.

6. Insurers are uniformly in favour of legislation governing the installation and inspection of oil tanks. The Prince Edward Island and Newfoundland regulations were cited as good examples of the type of legislation they would support.

7. Most of the larger insurers in Nova Scotia do not write a lot of insurance for non-profit, recreational, entertainment, or youth based groups; they do not focus on these markets. Those insurers that previously wrote some of these risks have reduced their "appetite" for these types of risks. The insurance needs of these markets are primarily met by the

specialty insurance companies that are based outside of Nova Scotia; although one of the smaller insurers does target churches, community halls, and legions.

8. The general agents (specialty markets) believe that insurance is available in Nova Scotia, but acknowledged that as a result of double-digit rate increases over the past several years, price may be an issue – particularly for the smaller associations and clubs, who, because of their size, find even the minimum premiums charged to be "unaffordable." Yet, argue the general agents, the minimum premiums are necessary to cover their policy processing costs. The specialty writers also reported that insurance premiums in Nova Scotia are among the lowest in Canada and in some cases can be considered "cheap." For example, liability insurance may cost a large sports association less than $5 a member (and often less than $1 a member)...so, a 20% increase could represent an increase of perhaps 20 cents a member.

9. In general, the large insurers rely on their own experience in Nova Scotia in setting their homeowners rates. But for commercial property and liability, most insurers use rates published in 1998 by the Insurers' Advisory Organization, and then adjust these rates up or down based on the insurer's assessment of the characteristics of the individual risk (i.e., nature of operations, size of firm, risk management practices, claim history, etc.). Insurers acknowledged that the underwriting and rating of commercial risks involves a great degree of "art" as opposed to "science," and that rates are very much based upon the experience and expertise of the individual underwriter.

10. Few insurers write policies for coal-heated homes and it appears that none had data for coal-heated properties.

11. While insurers suffered losses from Hurricane Juan, these losses have not directly caused homeowner or commercial insurance rates to increase. This is because insurers anticipate the occurrence of occasional catastrophic events in the rates that they charge. The costs of such catastrophic events are borne over a long period of time and are incorporated into the insurance rates as a "catastrophe factor."

12. Homeowners experience in the Glace Bay, New Waterford, and Dominion area was reported to have been relatively unfavorable for insurance companies. Specific reasons were not identified, although one insurer stated that risks are higher where the economy

is poorer because insureds have difficulty affording the maintenance costs of their properties. Poor maintenance leads to windstorm and water damage, oil tank leaks, and so forth. Some insurers have restricted their personal property writings in these areas or have withdrawn from the area.

13. Some insurers no longer offer sewer back-up coverage in Truro because of the flooding that has occurred.

14. Heritage homes are difficult for insurers because it is hard to accurately estimate what it would cost to repair such a home if it were damaged. Damage on older homes is more costly to repair because of finishings, such as wood trims and plaster mouldings, which are difficult to replace and are required to be replaced on a "like kind and quality" basis. Insurance on older homes is available if the home is properly maintained and passes inspection.

15. Insurers target after-tax rates of return of between 10% and 15%. To achieve these results, they need to have loss ratios ranging from approximately 50%-70% (expenses and profit and contingency margins generally range from 30% to 50% of premium charged). The expense ratios tend to be higher for commercial business because inspections are more costly to perform and risks must be individually assessed.

16. Brokers' commissions are generally 20% of the premium for property and liability insurance.

17. The commission for general agents in the specialty market can be as high as 15% of the premium. The work performed by general agents is work that typically would be performed by the insurer; therefore, the commissions paid to general agents are in part, offset by a reduction in the insurer's processing costs.

18. Investment income has not had a significant impact on rates for property insurance due to the federal regulations that limit the types of investments and the short time line in paying out property claims.

19. Insurers are very concerned about the legal environment and the perception that people are becoming more litigious. They reported increases in the number of liability claims

that are being made, increases in the size of successful liability claims, and increases in the costs to defend liability claims. They are particularly concerned about exposure to liquor liability claims, and it is for this reason that they have restricted their writings in markets that have a liquor liability exposure. A general concern over liability claims has caused insurers to limit writings and increase rates in the sports and recreation markets.

20. Insurers generally reported that recent legislation such as the *Volunteer Protection Act*[1] has had limited impact on their marketing or rating practices. The companies want to first see how the courts interpret the legislation. Insurers also exhibited a lack of awareness or understanding of other provincial legislation that limits risk, for example the limited application of the *Heritage Property Act*[2], and certain limits of liability in the *Occupiers' Liability Act*[3].

21. Communications between the company and the policyholder are generally handled through the brokers. Insurers generally notify brokers between one and three months prior to the policy renewal date of rate changes, coverage restrictions, or policy cancellations and non-renewals. Insurers reported being unaware of communication problems between consumers and brokers.

22. Insurers reported that they are involved in safety and prevention programs, such as Block Parents, Buckle Up Bears, Drivewise, Nova Scotia Safety Council, Safe and Active Routes to School, Staying Alive, Safe Communities Foundation, 4-H, National Students Against Impaired Driving Day, Teenagers Against Drunk Driving, and Safe Seniors Calendar. (Note – Most of these deal with automobile insurance.)

23. Insurers reported trying to reduce operating expenses, and focusing on consumer education on loss prevention techniques.

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[1] S.N.S. 2002, c.14

[2] R.S.N.S. 1989, c.199

[3] S.N.S. 1996, c.27

24. Insurers reported expanding their use of postal codes to recognize the variation in the risk of losses throughout the province, due to factors such as differences in weather, topography (e.g., the low lying nature of Truro), crime rates, and the quality of fire protection.

25. Insurers commonly use the IAO "HITS" report, which provides insurers with the claims history of an applicant. Insurance companies require applicants to sign waivers that enable insurers to share this information. By federal government regulation, many insurance companies are required to have privacy protection policies, which are available to insureds to explain the company's use of personal information.

26. Many companies are now offering a commercial package policy at a set rate, or have standardized computer programs that set rates for basic commercial risks. Often these have minimum premiums of between $750 and $1,000. This commercial package policy is not suitable for many non-profit organizations.

27. Sewer and water damage claims have been increasing. It is believed that an aging and inadequate municipal infrastructure is a significant factor in the rise of claims. The cost of the policy endorsement that provides sewer and water damage coverage has increased from about $25 to $50 in recent years.

28. Insurers recommend "preferred" or "approved" contractors for claims repair work as a significant aspect of their claims control process.

29. Some insurance industry representatives expressed views that were not generally shared by others, such as:

    - regulatory monitoring of rates would be beneficial
    - regulations requiring insurers to "take all comers"
    - lack of availability of insurance in part of Cape Breton may be due to a limited number of brokerages in the area
    - there is some merit to tracking experience of small groups, such as legions, on a nation-wide basis to develop credible statistics

5

Literature Search

A literature search and review was undertaken with the assistance of the study consultant. A summary and bibliography of significant and relevant papers, studies, and news articles on the issue of insurance affordability and availability in Nova Scotia was developed. The major and minor issues that affect, or may in the future affect, the availability and pricing of personal and commercial property and liability insurance for the specific groups in Nova Scotia were identified. While the review focused on current issues of concern to Nova Scotia, it also included issues that have arisen in the United States that may become issues for Nova Scotia in the near future. Also, in some instances, the scope of the review was expanded to include larger commercial enterprises (such as the construction industry) because certain issues that affect large businesses affect, or in the future may affect, small businesses.

The bibliography, to which references are made below by the numbers in brackets [ ], is attached as Appendix-Exhibit 2.

Affordability/Availability

General

It is generally recognized that the recent insurance environment in North America has been what is referred to as a "hard market" - a period in which it is difficult to obtain affordable insurance. There are a number of reasons for the current hard market, but perhaps the key drivers have been insurance industry concerns over financial results, possible future terrorist attacks, lower investment returns, a heightened level of litigation, and a consolidation of insurance companies.

- "Unfortunately, if the status quo continues, industry experts expect 'the hard market' to continue beyond 2003 if there is an accumulation of natural and human catastrophes this year or next and if the stock market does not rally by then." [8] (quoting from The Insurance Journal, 2003)

- "One of the primary reasons behind the dramatic (premium) increases in recent years, according to the insurance industry, has been the weak performance of their investment returns due to the plunge in stock markets." [8]

- Although Nova Scotia would not seem to be a prime target for terrorists, the risk of future terrorist activities and the reduction in insurance capacity resulting from the estimated $40 billion in insurance company losses incurred on 9/11 has lead to general increases in the cost of insurance and in coverage limitations and restrictions for property, such as sports arenas and shopping malls. "The events of September 11, 2001 had a significant impact on the global property & casualty insurance and reinsurance markets. Changes to premium levels and the type and level of risk that reinsurers are willing to assume have had an impact on insurance companies worldwide, including Canadian property & casualty insurance companies. Combined with low investment earnings resulting from low interest rates and weak equity markets, this has pushed premiums significantly in the last few years and has resulted in changes to insurance coverage." [2, 1a]

A recent report by the Canadian Federation of Independent Business [8] and local newspaper articles suggest that small businesses and other groups in Nova Scotia have experienced, to various degrees, difficulties in obtaining affordable insurance. "CFIB research indicates that consumers – specifically commercial consumers – are bearing the brunt of these consequences not only through increased premiums, but through decreased coverage and, in some cases, the inability to access insurance at all." [8] The CFIB report cites examples of small businesses in Nova Scotia experiencing sharply increasing insurance premiums: a firm in the seafood sector, a firm in the fishing sector, and a firm in the business of removing oil tanks. The report goes on to state, "In essence, firms in every industry and in every region of the province are experiencing various challenges with insurance. These challenges range from increased costs to access to the minimal impact of precautionary measures. All have the ability to stunt business attraction, retention, and development, ultimately impacting the province's economy." [8]

Although not a small business per se, the construction industry in Canada has experienced insurance availability and affordability issues. The insurance market for the construction industry in Canada began to harden after 9/11. Recent large fires at wood-frame construction sites, mould related concerns, and leaky condominiums in British Columbia have also contributed to this situation.

Insurance has become harder to find as insurance companies have limited or stopped providing coverage altogether to certain types of risks such as wood-frame residential projects and condominiums and roofing. Insurance companies have also reduced the amount of coverage offered (i.e., lower policy limits or requiring higher deductibles), and sharply increase their rates (by as much as 50% - 300%), even to those firms with clean claim records. Insurers have also placed restrictions and conditions on the coverage that they did offer (such as off-hours security, fire break spacing, use of open flame, fire hydrants, storage of building material, clean up of refuse, and road accessibility for fire trucks).

IBC has a market availability committee that has met with the Canadian Construction Association, Canadian Home Builders Association, and the Canadian Roofing Contractors Association to try to deal with these issues. The increased insurance costs experienced by the construction industry will eventually be passed on in the cost of resale. In the case of homeowners, this will impact the purchase price of a home, and in turn the insurance coverage required, and this will lead to higher homeowner insurance costs.

Other groups for which anecdotal evidence of availability/affordability problems has been found in the literature include the following.

Churches

Insurance companies have responded to the sexual abuse scandal that began in January 2002, by raising premiums, excluding coverage of sexual abuse by clergy, and not paying claims where the acts were intentional. In Nova Scotia premiums were reported to have increased by 250%, "…in part because of the fire that leveled the 247 year-old wooden St. John's church in Lunenburg, N.S., last Halloween." [10]

Directors & Officers

As a result of an increase in shareholder litigation, particularly claims made against technology companies and investment banks after the 2000 Nasdaq stock market downturn and the claims made against the directors and officers of Enron and Global Crossing, as well as a capacity shortage due to 9/11, insurance companies have sharply increased premiums and have restricted coverage (i.e., requiring higher deductibles or co-insurance, reducing policy limits, and eliminating the co-defendant coverage for non-director/non-officer employees in securities claims). [12] Nova Scotia has not been exempt from these types of claims and this may impact future insurance availability and affordability.

Wood Burning Stoves

Many homes in Nova Scotia use wood burning stoves as either the primary source of heat, supplemental heat, or as back-up to their oil, gas, or electric heating system in the event of a power failure. Wood burning stoves pose a fire risk, and most insurers will provide insurance to homes that use wood burning stoves only if the stoves are approved, meet the latest building and fire codes, and pass an inspection. Some insurers will surcharge risks with wood burning stoves. [37, 38]

Oil Tanks

Homeowner policies that provide coverage for oil tank related claims, typically provide liability coverage for damage to the property of others due to an oil spill, but do not cover the cost to clean up the owner's property. As a result of a sharp increase in the number of insurance claims related to residential oil tanks (oil spills and oil tank ruptures) insurers have been much more selective in providing coverage, often requiring homes to pass inspections. Newfoundland and Labrador enacted regulations for home heating oil storage tank systems on April 1, 2002. [34] Prince Edward Island passed legislation that took effect in fall of 2002.

Other Groups

- owners of older homes - because the cost of replacing damaged property in so-called "Heritage Homes," is very high [25]

- contact sports teams - due to the rising cost of litigation [14]

- lawn maintenance and ice and snow removal contractors - insurers fear litigation arising from the use of pesticides on lawns to slip and fall claims in icy parking lots [13]

- air shows - due to the threat of terrorist attacks [9]

- Nova Scotia's adventure tourism sector - examples of those experiencing insurance difficulties, include: an outdoor tour operator in Truro, a campground operator in Berwick, and a popular festival on the South Shore [15]

- Nova Scotia's food and beverage services sector - "The food sector is very concerned about insurance, and the latest indications are there will continue to be a sharp hike in insurance premium quotes." [15]

- Nova Scotia's recreation sector - "In the late 1980's the recreation sector underwent an insurance crisis not unlike the one being experienced today." [15]

- Nova Scotia's non-profit volunteer organizations - "As a result of the insurance crisis, government and communities can no longer assure that the services and programs long provided by volunteers will continue to exist." [15]

Potential Insurance Issues for Nova Scotia

Credit Score

The use of credit information by insurance companies to set premiums and select risks for personal automobile and homeowners coverage has been a hotly debated issued in the United States for the last several years. Based on actuarial studies, insurers have maintained that credit scores serve as a valuable tool in their underwriting and rating process, i.e., in distinguishing between good and bad risks. Consumer advocates have charged the use of credit score as being discriminatory and that it is being inconsistently or inaccurately applied. Many states have adopted laws that allow insurers to use credit information for underwriting and rating, but prohibit companies from using it as the sole basis for denying, canceling, or non-renewing a policy or increasing premiums. Some states have greater restrictions. [23] *(Currently, insurers in Nova Scotia do not use credit scores in determining rates, but in a few instances may be using credit score for underwriting.)*

Crime

A study prepared by GPI Atlantic in 1999 found that between 1971 and 1996 theft insurance premiums in Nova Scotia rose by 142%, while insurance claims increased by 72% in constant dollars. The study also found that insurance premiums continued to rise in Nova Scotia even though property theft rates were declining. [22] *(Insurers indicate that crime has not been a major factor in increasing premiums.)*

Asbestos

Asbestos is a naturally occurring fibrous mineral with a crystalline structure containing long chains of silicon and oxygen. It is flexible, strong, durable, and resistant to heat and fire. It is used in industrial sites, homes, schools, and commercial buildings. And it causes a variety of diseases including asbestosis, mesothelioma (the most serious), and other cancers, particularly lung cancer. It has a latency period as long as 40 years. Over 20 million United States workers working in high-risk industries and occupations between 1940 and 1979 are estimated to have been exposed to asbestos. [19, 20]

Asbestos claims are surging again in the United States as plaintiffs are widening their target to bring suit against companies (the number of defendant firms exceeds 8,400), and as the courts expand the concept of liability. (In 2003, more than 100,000 claims were filed.) It is estimated that the total cost of resolving asbestos claims through 2002 was $70 billion. Some experts project the total cost for past and future asbestos claims will be between $200 and $250 billion. For the past year the United States Congress has been trying to find a legislative solution to the crisis.

Mould

There has been a surge in mould claims in the United States and Canada over the past several years. In Texas, for example, in 2001, mould claims cost insurance companies $850 million as compared to virtually nothing in 1988 and it appears that costs continue to escalate as more and more claims are being filed. Texas, California, and Florida have been hit the hardest, perhaps because of high humidity. But mould claims are not limited to the southern part of the United States. New York has the fourth highest number of mould related insurance claims. And in Canada, "insurers are now increasingly faced with first and third party claims relating to building and construction damage and personal injury claims resulting from exposure to toxic mould." [30] "…there have been approximately 9,000 toxic mould and mildew-related claims filed in the United States and Canada in the past ten years." [31] Some experts believe mould will be the next asbestos crisis.

Mould damage is of two types: property and personal (health/liability). As respects property damage, the typical insurance policy provides mould cleanup coverage only if the mould resulted from sudden water damage such as a burst pipe; but not for damage that results from a maintenance problem (such as a leaky water heater). As respects health/liability, experts disagree on the effects of mould on the health of individuals. [29] Nevertheless, claims are being filed for personal injuries alleged to have been caused by mould. However, as of March 2003, "there have been no Canadian mould cases where any amount has been awarded for personal injury." [29] Yet, "given the increasing awareness among insureds of the risks of exposure to mould and fungi, the insurance industry should expect more and more claims (in Canada)." [30] Construction companies are also being sued for damages caused by mould.

The reason for the sudden surge in claims is not clear. Some attribute it to a high profile case in Texas that gave the public a greater awareness of the dangers of mould. Others point to the modern home construction methods, which have contributed to poor home ventilation, and the use of cellulose in walls.

In response, insurance companies in the United States are coming out with new policies that clearly exclude or greatly limit mould related losses. [28] But, at the same time, states are requiring insurers to offer limited mould related coverage endorsements (e.g., coverage for fungus resulting from certain causes of loss, including sudden discharge of water from an on-premise system or appliance). *(Most insurance companies surveyed by the Board already have mould exclusions in their policies, unless the mould arises from an insured peril.)*

Some states are also passing legislation that provides legal protection to groups such as contractors, engineers, and architects, for mould related damage.

6

Review of the Insurance Industry Data

IBC Published Data

The Board asked the study consultant to review available insurance industry personal property, commercial liability, and commercial property premium and claims data for Nova Scotia to help the Board determine whether the rate and underwriting actions taken by insurers are justified. The only sources of insurance industry premium and loss information, by type of insurance and by province, are the statistical reports published by the IBC. The study consultant reviewed the most recent reports published by the IBC, and concluded that the information is inadequate for the Board to make such an assessment. Available data was found to be relatively old; representative of the experience of only between 40%-50% of the insurers operating in Nova Scotia and Canada-wide; lacking important information; and insufficiently detailed.

Further, there are concerns about consistency in the way insurers code their data. And, due to the small number of businesses in Nova Scotia, the study consultant found that the Nova Scotia commercial insurance data lacks statistical credibility. However, the study consultant found that the Nova Scotia homeowners insurance data is statistically credible.

Before presenting the statistics that the study consultant extracted from IBC reports, information is provided on the manner in which insurance company personal property, commercial property, and commercial liability data is compiled by IBC.

Data Compilation - General

IBC is the data gathering organization in Canada; it compiles and publishes insurance company data. The reporting of data is mandatory for automobile insurance, and with one exception, is voluntary for property and liability insurance; only the province of Ontario requires the reporting of commercial liability insurance data. Approximately 50% of insurers voluntarily report their property and liability data to IBC in accordance with statistical plans that have been developed. The data is edited by IBC, and the edited data is published in a series of reports. Personal property data is presented in what is referred to as the "Brown Book," commercial property data in the "Red Book," and commercial liability data in the "Blue Book." The books are published by IBC once a year. The information in the reports is quite extensive, and includes, among other statistics:

- written premium
- earned premium
- reported incurred losses & legal expenses
- number of claims
- average size of claims
- reported loss ratio

The information is categorized in many different ways, including, province, protection grade, construction code, policy form, kind of loss, etc.

The commercial property and commercial liability information is presented by what are referred to as "major classes" and by what are referred to as "industry codes." For commercial property, the major class and industry code information is presented by province and for total Canada; for commercial liability the major class information is presented by province and for total Canada, but the industry code information is presented for total Canada only.

Data Compilation - Commercial Property

The commercial property data is categorized into 16 major classes, and within these 16 major classes are numerous subclasses, or industry codes. The 16 major classes are:

1. Farms, Agriculture & Forestry
2. Mining
3. Contractors, Buildings Under Construction, and Vacant Property
4. Manufacturing
5. Transportation Services, Water Front Operations, and Public Transportation Maintenance
6. Warehousing
7. Utilities
8. Wholesale Operations and Private Storage
9. Retail Stores - Large Open Area
10. Retail Stores – Other Than Large Open Area
11. Financial Operations & Realty
12. Hotels and Resorts
13. Business and Professional Services
14. Entertainment
15. Medical Services, Legal, and Institutions & Engineering
16. Municipal Schedules

As an example of the industry codes, within major class 15, Medical Services, Legal, Institutions & Engineering, are the following industry codes:

801: offices (doctors, dentists, osteopaths, registered nurses, etc.)
806: hospitals, clinics, dispensaries
807: sanitarian, convalescent homes
808: medical and dental laboratories, blood banks,
811: law offices
829: museums, public art galleries, zoos, etc.
830: day schools, boarding schools, primary and secondary (public or private)
831: universities, colleges, technical schools
832: other schools, including trade schools, business colleges, vocational centres
862: bar associations
865: clubs and fraternal orders (insurance or benefit paying)
866: clubs and fraternal orders (no insurance or benefit paying)
867: churches and religious organizations
868: convents and monasteries
891: engineers and architects

As another example, within major class 16, Municipal Schedules, are the following industry codes:

894: municipal schedules including fire and police departments, parks maintenance, yards, etc.
895: prisons, jails, penal institutions

Data Compilation - Commercial Liability

The commercial liability data that is published by IBC is categorized into 19 major classes and about 760 industry codes. The 19 major classes are:

1. Business and Professional Services
2. Construction, Erection and Installation Services
3. Education Services
4. Farming Services
5. Government Services
6. Health Services
7. Hospitality Services
8. Fishing and Hunting
9. Logging Operations
10. Member Organizations
11. Manufacturing and Processing
12. Mining
13. Realty
14. Recreation
15. Retail
16. Transportation
17. Utilities
18. Warehousing
19. Wholesale

Within each of these 19 major classes are numerous industry codes.

As an example, the "Member Organizations" industry codes are as follows:

8620: Professional and Business Associations
8630: Labour Unions
8641: Boy Scouts, Girls Guides, similar groups
8642: YMCA,YWCA,YMHA,YWHA
8643: Community Services
8644: Civic, Community, Special Interest (non-medical) Associations or Groups
8650: Service Clubs, Fraternal Orders-Insurance, Benefit Paying
8660: Service Clubs, Fraternal Orders-No Insurance, Benefit Paying
8661: Snowmobile Clubs
8671: Churches, Synagogues, Temples
8672: Convents, Monasteries
8673: Fund Raising Activities Operated by Charitable or Religious Bodies

Data Compilation - Personal Property

The personal property data published in IBC's Brown Book is quite extensive. Information is provided by type of dwelling (i.e., homeowners, tenants), type of loss (e.g., fire, theft, liability, water, etc.), type of occupancy, size of policy, territory and protection grade, policy form, etc.

Data Issues

Information is Relatively Old

The most recent reports were released by IBC in 2003, and contain data for the five-year period spanning 1997 through 2001 for commercial property and liability; and 1998 through 2002 for personal property. Hence, the commercial data is almost three years old; industry data for the years in which the large rate increases have occurred is not available. The

Board was advised by IBC that the publication of the 2002 reports for commercial insurance and the 2003 reports for personal property insurance is in progress. By comparison, automobile insurance data, which is required to be reported, is generally available within six months following year-end.

Information Represents the Experience of Only About Half of the Insurers Operating in Nova Scotia

Unlike personal automobile insurance, for which insurance companies are required to regularly report their data to IBC, the reporting of data for personal property, commercial property, and commercial liability is optional (one exception: the reporting of commercial liability data is mandatory in Ontario). IBC estimates the market share of companies that voluntarily report their Nova Scotia data to IBC for these three lines of business to be as follows:

Personal Property	51.9%
Commercial Liability	42.9%
Commercial Property	47.9%

This means that information on only about half of the homes and businesses insured in Nova Scotia are included in the data.

Important Information is Not Available

It is very important to note that the loss information and the loss ratio information for commercial property and commercial liability that is included in the IBC Blue and Red Books reflects only the amounts paid by insurers and the insurers' case reserves. The insurers' actuarial reserves are not included. This means that the loss information and loss ratios do not fully reflect the insurers' estimates of what they will have to pay on claims that are pending. As the actuarial reserves can be significant, particularly for commercial liability, the loss information and loss ratios contained in the reports are not a true reflection

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Information Insufficiently Detailed

The commercial property and commercial liability data is categorized by major classes, and further subdivided into numerous industry codes. While seemingly quite detailed, the commercial property and commercial liability industry codes reports lack detail that would be useful for this study. For example:

- day cares are combined with nurseries and kindergartens, and there is no distinction between in-home vs. not-in-home day cares, by number of employees, or by whether the day care is for-profit or not-for-profit

- martial arts is combined with dance and gymnastics, and there is no distinction by type of martial arts

- there is no distinction between contact and non-contact sports, and there is no distinction within amateur sports between youth and adult sport activities

- veteran halls are not distinguished between those that serve liquor and those that don't

- fund raising activities are not distinguished by type of activity, and whether or not liquor is served

Data May Not Be Consistently Coded

It is not clear to the Board (from a review of the code descriptions) that the class and industry codes are sufficiently detailed so as to ensure consistency in reporting.

For example, it would appear that Commercial Liability Industry Code 8673, "Fund Raising Activities Operated By Charitable or Religious Bodies" could include almost all events performed by charitable organizations, legions, fire fighters, etc., but possibly the data for these groups might also be reported in other codes such as licensed establishments, veteran halls, municipal halls, special interest groups, service clubs, municipal - volunteer. It is quite possible for different companies to categorize similar risks differently for reporting purposes.

Nova Scotia Data Not Statistically Credible

By virtue of Nova Scotia's population, and the fact that not all companies report their data to IBC, the data by class and industry code for Nova Scotia that is presented in the IBC reports is not statistically credible. For example, for the major class, Member Organization Services - Associations, which, as stated above, includes professional associations, youth groups, service clubs, civic groups, etc., only 56 commercial liability claims were reported over the five-year period spanning 1997 - 2001. Actuaries generally do not consider data with fewer than 1,000 claims to be statistically credible.

Summary of Premium and Loss Statistics

A summary of the key statistics extracted by the study consultant from the IBC reports follows.

Commercial Liability

The reported loss ratios for all classes combined are as follows:

	Nova Scotia	Canada-wide
1997	40%	56%
1998	37%	55%
1999	42%	49%
2000	49%	46%
2001	28%	26%
Total	39%	46%

Commercial Liability

The reported loss ratios for all classes combined are as follows:

	Nova Scotia	Canada-wide
1997	40%	56%
1998	37%	55%
1999	42%	49%
2000	49%	46%
2001	28%	26%
Total	39%	46%

The Canada-wide reported loss ratios for the five years ending 2001 for selected industry codes are as follows. The number of claims over the five-year period is in parentheses.

5821:Licensed Establishments – Not in Hotel/Inn – No Live Entertainment	73% (251)
5822: Licensed Establishments – Not in Hotel/Inn – Live Entertainment	24% (53)
5823: Night Clubs	126% (55)
7041: Summer Camps, Dude Ranches, Resort Property	33% (136)
7921: Sports Playing Fields, Grandstands	60% (46)
7923: Athletic Events/Teams/Leagues – Amateur	27% (268)
7924: Athletic Events/Teams/Leagues – Professional	292% (6)
7925: Horse Shows	6% (6)
7927: Concert or Similar Entertainment	21% (34)
7928: Exhibition, Fair Grounds	37% (98)
7929: Other Special Events (Parades, etc.)	71% (160)
7936: Fish, Game, Hunting Clubs	9% (35)
7937: Health, Exercise Clubs	45% (226)
7941: Private Clubs	40% (153)
7942: Veteran Halls	29% (45)
7983: Arenas-Hockey, Ice, Roller Skating	56% (127)
7984: Municipal Halls	69% (5)
7985: Dance Halls	32% (17)
7987: Riding Academy	11% (4)
8301: Day Care, Nursery, Kindergarten	18% (336)
8322: Dance, Gymnastic, Martial Arts	19% (36)
8620: Professional and Business Ass.	24% (48)
8630: Labour Unions	16% (15)
8641: Boy Scouts, Girls Guides, similar groups	30% (52)
8642: YMCA,YWCA,YMHA,YWHA	25% (14)
8643: Community Services	21% (117)
8644: Civic, Community, Special Interest (non-medical) Ass. or Groups	20% (276)
8650: Service Clubs, Fraternal Orders-Insurance, Benefit Paying	13% (14)
8660: Service Clubs, Fraternal Orders-No Insurance, Benefit Paying	24% (127)
8661: Snowmobile Clubs	0% (0)
8671: Churches, Synagogues, Temples	24% (687)
8672: Convents, Monasteries	21% (49)
8673: Fund Raising Activities Operated by Charitable or Religious Bodies	33% (14)
8942: Municipal Paid Fire Departments	23% (3)
8943: Municipal Volunteer Fire Departments	9% (6)

As noted above, because these statistics do not include the actuarial reserve nor the internal claim handling expenses, they understate the actual results experienced by insurers. That is, insurers have experienced higher loss ratios (i.e., more losses and claim related expenses) than indicated by the above figures.

The all classes combined information suggests that the experience in Nova Scotia is similar to if not slightly better than the experience throughout Canada. And it is likely that even with the inclusion of a provision for the actuarial reserve, the five-year experience in Nova Scotia (through 2001) will be profitable for insurers.

The five-year Canada-wide experience by industry code is similarly understated. However, it appears that with few exceptions, most notably night clubs and professional sports, the experience for these classes – those that have experienced large rate increases and market restrictions – is profitable, even after including a provision for the actuarial reserve.

Again, it is noted that this experience, which is the latest that is available, is almost three years old. As a comparison, the IBC report for private passenger automobile experience through June 30, 2004 is scheduled for release in October 2004.

Commercial Property

The reported loss ratios for all classes combined are as follows:

	Nova Scotia	Canada-wide
1997	52%	66%
1998	66%	77%
1999	46%	76%
2000	50%	85%
2001	67%	69%
Total	57%	75%

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Total	57%	75%

The Nova Scotia reported loss ratios for the five years ending 2001 for selected industry codes are as follows. The number of claims that were reported over the five-year period in Nova Scotia is in parentheses.

	Nova Scotia	Canada
582: Bars and Taverns	92% (15)	112%
792: Stadiums, Ball Parks, Exhibition Halls, Fair Grounds	41% (6)	95%
793: Recreational Clubs	60% (56)	77%
794: Other Clubs	37% (28)	44%
799: Public Athletic Facilities	4% (2)	96%
830: Day Schools, Boarding Schools, Primary/Secondary Schools	14% (31)	46%
863: Labour Unions	43% (2)	54%
864: Civic Groups, Boys and Girls Scouts, YMCA/YWCA, etc.	15% (27)	42%
865: Service Clubs, Fraternal Orders-Insurance, Benefit Paying	8% (1)	46%
866: Service Clubs, Fraternal Orders-No Insurance, Benefit Paying	34% (3)	71%
867: Churches and Religious Organizations	60% (123)	74%
894: Municipal Fire/Police/Parks Maintenance Departments	60% (86)	57%

Again, as noted above, because these statistics do not include the actuarial reserve, they understate the actual results experienced by insurers. However, the degree of understatement is smaller than that for commercial liability.

This data suggests that the experience in Nova Scotia has been much better than the experience throughout Canada, overall, and generally by industry code (for those displayed). However, the inclusion of a provision for the actuarial reserve may show that insurers did not achieve their target returns over the five-year period (through 2001) in Nova Scotia.

The five-year experience by industry code is similarly understated, but the results that are displayed reveal relatively high loss ratios for several industry codes, particularly on a Canada-wide basis; bars and taverns stands out as the most unprofitable risk class.

Again, it is noted that this experience, which is the latest that is available, is almost three years old.

Personal Property

The reported loss ratios for all classes combined are as follows:

	Nova Scotia	Canada-wide
1998	50%	71%
1999	57%	58%
2000	65%	64%
2001	101%	67%
2002	81%	70%
Total	72%	66%

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The reported loss ratios for all classes combined are as follows:

	Nova Scotia	Canada-wide
1998	50%	71%
1999	57%	58%
2000	65%	64%
2001	101%	67%
2002	81%	70%
Total	72%	66%

The reported loss ratios for homeowners only (included in the above table) are as follows:

	Nova Scotia	Canada-wide
1998	57%	82%
1999	64%	66%
2000	71%	73%
2001	118%	78%
2002	93%	80%
Total	82%	76%

Again, as noted above, because these statistics do not include the actuarial reserve, they understate the actual results experienced by insurers. However, the degree of understatement is smaller than that for commercial liability.

Both the all classes combined information and the homeowners-only information suggests that the experience in Nova Scotia has been somewhat worse than the experience throughout Canada. Much of this difference is attributed to years 2001 and 2002. Interestingly, the number of homeowner claims per 100 policies (claim frequency) was lower in Nova Scotia than Canada-wide during these two years; however, the average cost per claim was more than 50% higher; also, the average earned premium per policy in Nova Scotia was about 10% lower. The inclusion of a provision for the actuarial reserve would likely show the five-year experience (through 2002) in Nova Scotia to be unprofitable for insurers.

Data Provided by Insurers in Response to Questionnaire

In the questionnaire that was sent to insurance companies, the Board asked insurers to provide their Nova Scotia personal property, commercial property, and commercial liability

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Data Provided by Insurers in Response to Questionnaire

In the questionnaire that was sent to insurance companies, the Board asked insurers to provide their Nova Scotia personal property, commercial property, and commercial liability insurance premium and loss experience on a province-wide basis and for certain business segments for each of the past five years. The following is a summary of the information that was provided.

Overall Profitability

Companies were asked to provide the after-tax return on equity they had realized in Nova Scotia, by year, for the period 1999-2003. Most of the companies said that they were unable to provide the information, as they do not maintain such figures by province. Of the few companies that did provide their results, most showed unprofitable results for personal property, while the results for commercial property and liability were mixed (profitable and unprofitable results were reported). Those companies that did provide their results cautioned the Board that the results may not be 100% accurate due to the difficulty they faced in compiling the information in the requested time frame.

Homeowners

Most companies provided the Board with their Nova Scotia homeowners loss ratios for the four year period 2000-2003. The reported loss ratios ranged from 84% to 123%. A loss ratio of about 60%-70% represents the break-even point for insurers (after reflecting investment income), so these results suggest a period of unprofitable insurance company results. These profitability results are negatively affected by Hurricane Juan; however, as stated elsewhere in this report, the companies advised the Board that Hurricane Juan will not have a direct impact on the rates that they charge.

The Board also asked for Nova Scotia homeowners premium and loss ratios for various types of risks, such as homes heated by wood stoves, homes heated by oil tanks, homes over 100 years old, mobile homes, and watercraft. Only a couple of companies provided this information, and what information they did provide is of generally low volume. What little data was provided showed generally favorable results (oil heated homes being one exception of note), but, again, the volume of business is too small to draw any meaningful conclusions.

Commercial Property and Liability

Only four companies provided their commercial liability premium and loss experience for the province. The four-year loss ratios ranged from 37% to 100%. These results suggest a period of generally unprofitable insurance company results. Included in these figures are the results of Hurricane Juan.

The Board also asked for Nova Scotia commercial property and liability premium and loss ratios for various business segments, including: legions, churches, volunteer fire departments, festivals and events, sports and recreation, and youth groups. Again, only a couple of companies provided this information, and what information they did provide is very low volume. The surveyed companies do not write much business in these markets. What little data was provided showed generally favorable results (property experience for churches being one exception of note), but, again, the volume of business is too small to draw any meaningful conclusions.

Conclusion

From several perspectives, the data that is reported to and compiled by IBC and the data that was reported to the Board by insurers is inadequate for a meaningful analysis of the adequacy of rates in Nova Scotia. This is particularly the case for commercial liability and commercial property. The commercial data available to the Board suggests that overall, the industry's results have not been profitable over the past several years, but the experience appears to vary widely by type of risk. The risk experience as demonstrated by industry data that is the focus of the Board's study does not suggest the type of rate increases and market restrictions that have occurred. However, the Board recognizes the lack of statistical credibility in Nova Scotia's data, and, therefore, the need for insurers to consider the experience of other Canadian jurisdictions. There is some danger in having rates solely based upon provincial experience as this would cause rates in a province to be severely impacted by adverse events in that province as opposed to having the adverse events absorbed in a larger pool – such as the rest of Canada. The purpose of insurance, of course, is to pool experience, good or bad; the question is what pool is appropriate.

7

Affordability and Availability of Insurance in Nova Scotia

How Premiums are Determined

To understand how insurance premiums can become unaffordable, it is necessary to understand how insurance companies charge premiums.

In Nova Scotia, and in most jurisdictions in North America, insurance company rates for personal property and commercial property and liability are not closely regulated. Companies can pretty much charge what they want, and it is left to the forces of market competition to control premiums. This is unlike personal automobile insurance, where in most jurisdictions rates are closely regulated.

The premiums that companies charge are made up of three components: a provision for claim costs, operating expenses, and profit.

Claim Costs

Claim costs refer to the amount an insurance company pays to indemnify its policyholders for property or liability claims that they submit, as well as the cost to process the claims (including legal expense costs).

Insurance companies sell insurance policies to provide coverage for incidents that take place over some future period (typically six months or one year). This means that at the time an insurer sells a policy, it does not know with certainty what its claim costs will be for that policy; it does not know whether the insured will have a claim during the policy period, nor the amount of any claims that the policyholder might have. Therefore, the insurer must estimate the claim costs it will incur. For types of insurance like personal automobile and personal property, where risks are homogeneous in nature and sufficient data is available for the law of large numbers to apply, actuarial estimates of future claim costs are generally fairly accurate. But for commercial property and liability, where there is a much lesser degree of commonality among risks and where the data is not as statistically credible, as explained more fully later, a considerable amount of judgment is applied by companies to determine what the claim cost provision should be. Depending upon the company and the type of insurance, the provision for expected claim costs can represent 50% to 70% of the premium that is charged.

Operating Expenses

Insurance companies have operating costs, and these costs must be reflected in the premiums that are charged. These costs include the commissions paid to brokers, premium taxes, inspection costs, and general operating costs such as salaries, rent, and advertising, etc. The cost of the reinsurance coverage that the company purchases is also an operating expense. Depending upon the company and the type of insurance, operating expenses can represent 30% to 50% of the premium that is charged.

Profit

Insurance companies have three sources of profit. Companies earn income on:

- investment income from assets that support the surplus that they carry;

- investment income from the premiums that they collect from policyholders until such time that the premium is needed to pay for claims or operating expenses; and

- the margin for profit in the premium they charge; this is typically referred to as the underwriting profit margin.

The total of all three sources of profit is considered the total profit earned. This amount, taken as a percent of an insurance company's surplus, is referred to as the total return on equity. Insurance companies typically target a return on equity of 10% to 15%, after-tax; but this varies by company, by type of insurance, and by market conditions. In times when competition is high, a company may very well accept lower returns.

Total Premium

The premium that a company charges to provide insurance coverage is the sum of the three components.

Homeowners Premiums

Actuaries calculate the homeowners insurance rates for the various types of risks. The calculated rates for each of the many types of properties that a company might insure are displayed in the company's rate manual.

Homeowners rates vary by type of property (home, apartment, condominium, seasonal/vacation property, and rentals); by location (rating territory); by fire protection (distance from, and quality of, a responding fire department); by construction material (frame, masonry, veneer); by the amount of insurance purchased; by the type of coverage that is purchased (standard, broad, or comprehensive); by the amount of the deductible that is carried; and by such risk characteristics as age of dwelling; the type of heating system; the condition of the electrical system, plumbing system, and roof, the existence of fire or burglar alarms; claims history; the age of the policyholder; the number of years the policyholder has been insured with the company; the number of years the policyholder has lived in the home; whether or not the policyholder has purchased other insurance products from the company; etc.

Commercial Property and Liability Premiums

For the most part, for commercial property and liability insurance, where actuarial estimates of claim costs are not precise, insurance companies rate risks, individually, based upon a discretionary assessment of the exposure that the risk presents. The exception is smaller commercial risks for which package policies are often offered. Unlike homeowners insurance where the premium for a risk can be found from a table in the company's rate manual, the premium for a commercial property or liability risk is generally determined in a two-step process. For each risk, companies have a base, or starting point premium that is found in a rate manual or guide. But companies then adjust the base premium upward or downward based on their individual assessment of the risk. The upward or downward adjustment can be 50% or more. While companies have guidelines on how to assess risks, and how much to adjust the base premium, they can, relatively freely, raise or lower premiums on individual risks as they so choose.

Most companies that the Board interviewed use the base premiums published by the Insurer's Advisory Organization (IAO) as their base premiums. The IAO is a public company that sets rates for its member companies utilizing data compiled by IBC. Interestingly, the current IAO rates are relatively old. The current IAO commercial liability premiums were established in October 1998 (based on 1997 data), and the commercial property premiums were established in March 2002 (based on 2001 data). In setting its base premiums, IAO gives a great deal of weight to Canada-wide experience because the data in any one province, including Nova Scotia, is not fully credible in a statistical sense. However, IAO base premiums do vary by province, and provincial data is considered in developing the provincial premiums.

The adjustments that companies make to the base premiums are affected by several factors. Claims that have occurred in other jurisdictions, or simply fears of escalating costs (perhaps due to observed trends in other jurisdictions) influence the rating judgments of companies. For example, a million dollar claim paid as a result of an incident that occurred in a karate class located in Ontario, could very well cause a company to greatly increase the base premium adjustment for a karate class business that it insures in Nova Scotia, even though that particular risk has never had a claim. Market conditions also influence the size of the adjustment. Companies that seek to increase their market share are likely to reduce the premiums they charge by applying smaller positive adjustments to the base premiums or larger downward adjustments to the base premiums. Conversely, companies seeking to improve their financial results are more likely to limit the size of their downward adjustments or increase their upward adjustments. Both of these market driven adjustments could occur even though there has been no change to the risk that they are insuring.

As a result of the discretionary nature of the rating process:

- There can be substantial year-to-year variation in the premiums charged by a company to a particular risk, even though there has been no change in the operations or claim experience of that risk.

- There will often be substantial company-by-company variation in the premiums charged a particular risk.

- It is quite possible that despite internal controls, two otherwise identical risks could be charged different premiums by the same company.

We note that such variation is less likely for small business operations, as some companies offer a small business package that essentially has a set price, usually with a minimum premium of $750 - $1,500.

Hard Markets and Soft Markets – Impact on Premiums

The insurance market in Canada and the United States is cyclical in nature. Soft market periods have been followed by hard market periods, which have been followed by soft market periods, and so on. Periods of soft market conditions follow periods of high insurance industry profitability, and are characterized by heightened competition and stable or declining insurance rates. Hard market periods follow periods of high insurance industry losses, and are characterized by sharply increasing premiums and difficulty in obtaining affordable insurance.

It is generally recognized that since about 2000-2001, North America has been experiencing a hard insurance market, and that this followed a soft market period that began around 1992. The Canadian property and casualty insurance industry reported profits (net income) that exceeded $1 billion dollars in 1996 and 1997, that steadily dropped to about $300 million in 2001 and 2002, and that sharply increased to $1.3 billion in 2003.

Nova Scotia has not been immune to the recent hard market. As reported by the public and confirmed by the insurers, Nova Scotia has experienced large insurance premium increases and a tightening of insurance markets.

A number of reasons have been advanced for the current hard market, including:

1. a realization that the rates charged during the prior soft market were too low;
2. insurance industry concerns over possible future terrorist attacks which have caused reinsurance rates to increase globally and have led to a reduction in the capacity of insurance companies to write business;
3. lower investment returns realized by insurance companies;
4. the cost of litigation; and
5. a consolidation of insurance companies.

Other factors contributing to market restrictions that are more specific to Nova Scotia include: underwriting losses suffered by insurance companies in Nova Scotia due to "White Juan," floods in Truro and Bedford, and other weather and fire related claims; and caps on automobile claims that may be causing a change in focus to general slip and fall type claims.

As it has done so many times in the past, the insurance market is beginning to turn. As noted above, the property and casualty insurance industry in Canada reported profits of $1.3 billion dollars in 2003, and of about $500 million through the first quarter of 2004. Every insurer, IBC, and IBANS told the Board that they believe that the insurance market conditions are softening and that rates are beginning to stabilize. The changing market has been more evident in commercial lines, but the softening of the market is evidencing itself in personal lines as well. Insurance companies have reported a moderation of rate increases in 2004 and are predicting rates to generally stabilize or reduce in 2005. Reasons cited for the softening market are an easing of the capital problems that industry was experiencing (which was to some extent affected by 9/11), improved loss ratios (due to the rate increases taken over the past several years), and improved investments (although this would have a very limited impact in property insurance).

It remains to be seen how the recent hurricane losses in the United States will affect the industry's capital and the softening of market conditions.

Effect of the Hard Market on Nova Scotia

Insurance companies are free to pick and choose the personal property and commercial property and liability markets that they wish to write. This selection process is referred to as underwriting. Insurers tend to select the areas that they wish to service or target, and develop an underwriting and rating expertise in those areas. However, in a hard market, insurers become more selective in terms of what risks they will insure and how much they will charge. As a result, both the non-profit and segments of small business sectors in Nova Scotia experienced significant difficulty in obtaining insurance at affordable prices during the recent hard market, and homeowners were required to upgrade their properties in order to obtain insurance. One presenter criticized this tendency of insurers to "cherry pick" who they insure and recommended legislation requiring companies operating in Nova Scotia to "take all comers," similar to Ontario legislation in automobile insurance.

Homeowners Insurance

The hard market has also affected homeowners insurance. Rates have generally increased and underwriting has tightened. For example, most, but not all insurers have become reluctant to insure homes where the primary source of heat is coal. The concentration of this type of heating system in industrial Cape Breton causes an area specific problem of accessibility to insurance. So, industrial Cape Breton, where a number of homeowners were encouraged by Federal government subsidies to convert to coal heating systems approximately 25-30 years ago, some may be experiencing an availability problem.

Insurers have also become more selective on risks with underground oil tanks and generally with oil heated homes.

Industrial Cape Breton and other economically depressed areas suffer from increasingly more stringent home maintenance requirements that are imposed by insurance companies. If oil tank, roof, heating, plumbing or electrical systems are not upgraded to meet insurance company standards, the homeowner is unable to obtain insurance.

Areas where flooding has been a problem have experienced difficulty in obtaining insurance. Truro and parts of Bedford, which have experienced flooding in recent years, are two examples.

Insurers have become more selective in insuring older homes where the market value of properties is often less than replacement value; where partial losses are very costly to repair; where roofs, electrical systems, foundation of homes have worn out or have not been upgraded; where aluminum wiring is a concern; and with cast iron pipes that may or may not, have rotted.

Insurers have become very selective for those risks that have had claims over the past three to five years.

For those individuals who are unable to obtain property insurance on their homes, the repercussions are extreme, as mortgagors will not lend money unless the property is insured. Individuals face the loss of their home, or are unable to sell their home.

Commercial Insurance

With respect to commercial insurance, of the reasons cited above for the recent hard market, the one most often heard by the Board, has been an increase in litigation, particularly having to do with liquor liability. The fear of an increase in the number of liquor liability claims and potentially very large claim awards, has caused companies to either severely restrict, and in several cases withdraw completely, from markets where there is a perceived significant liquor liability exposure. Bars and taverns, wet legions, and volunteer fire departments and other non-profit groups where fundraising activities often involve alcohol, have been affected. It is estimated that 80% of the Nova Scotia liquor liability policies are written by specialty writers operating outside of the province. The major insurers are reluctant to write this exposure; they no longer have the "appetite" for this risk.

This fear is despite no statistical support, particularly as to Nova Scotia's experience, and despite no significant change in the law with respect to liquor liability in the commercial sector, in recent years. Apparently, it is more the attitudinal change - the increased propensity to sue that is a concern to insurers.

The tendency of insurance companies to pay claims rather than incur the expense of fighting claims in court, may also be contributing to an increase in the number of nuisance claims.

Concerns over increased litigation, including sexual abuse, have caused insurers to withdraw from other markets as well. Some of the other markets that have been affected include festival and events, sports activities, particularly those involving water sports, trail associations, youth groups, playgrounds and other recreational areas, counseling services, child care services, snow removal, welding, and janitorial services.

Non-Profit Sector

Volunteer organizations are having difficulty attracting and maintaining volunteers because insurance costs have become the focus of their fundraising efforts. Some individuals refrain from volunteering due to fear of being sued.

Volunteer groups have limited budgets and the sudden and unpredictable insurance premium hikes of recent years cannot be absorbed. Organizations are closing and are cutting programs and services.

Volunteerism, in general, is being threatened, as people feel vulnerable without proper liability coverage. Many small community activities such as parades, fairs, and festivals are similarly affected; and fundraisers have become frustrated as they see all their efforts going towards insurance premiums.

Small Business

Similarly, small businesses have suffered. Since closing up is not often an alternative, some businesses are operating without insurance. Others are paying huge premiums for their insurance and some are indeed forced to close. The unavailability of affordable insurance limits the ability of businesses to obtain credit, which in turn hurts their ability to grow and expand.

Specialty Markets

The Board was advised by the insurers, IBC, and IBANS that insurance is generally available to the types of groups in Nova Scotia that are part of the focus of this study, and that it is provided by "specialty markets," that is, general agents that specialize in markets that have difficulty in finding insurance. These general agents, who for the most part are based outside of Nova Scotia, work with brokers and insurers to develop programs to insure "hard to place" risks. But while insurance may be available, the general agents acknowledged that the premiums may be high, particularly for those groups or associations with few members, where minimum premiums ranging from $750 to $5,000 could be considered to be unaffordable. Those seeking insurance from the specialty markets appear to have difficulty accessing these markets – the process often taking months, and many consider the costs prohibitive. The public interprets this as a lack of availability.

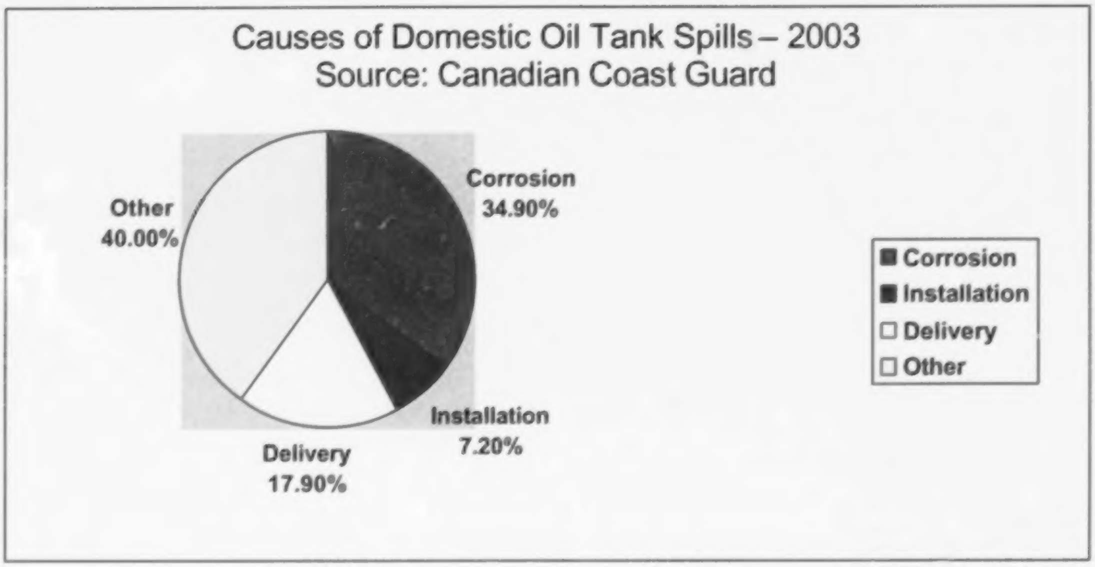
8

Oil Spills and the Cost of Insurance - Issues

The insurance industry claims that the cost of insurance has been severely impacted by the frequency and high costs of claims caused by oil spills, more specifically, by spills due to faulty or aged oil tanks and damaged oil lines. The lack of standards for oil tank systems is a concern of both the insurers and the public. The public has expressed frustration over the different oil tank policies of insurance companies and the costs that they incur in replacing systems due to age, location (i.e., indoor vs. outdoor), and other criteria that vary from company to company. More than one instance was reported where an insured replaced his oil tank as required by the insurer, only to have coverage denied by another insurer who had different oil tank criteria.

The "solution" to oil tank spills is much more complicated than what has been presented by either the insurance industry or by the public input that the Board received. The insurance industry uniformly supports oil tank installation and age requirements along the lines taken in PEI and Newfoundland. Whether these programs are successful has yet to be determined.

Information provided by the Nova Scotia Department of Environment and Labour indicates that, based on data collected by the Canadian Coast Guard for the year 2003, of all reported land spills (which have been isolated to domestic oil tank spills), only 34.9% are due to corrosion. This may be corrosion ofthe tank or a line; 7.2% is due to installation; and 17.9% is related to a delivery issue. The remaining spills are caused by furnace leaks, vandalism, and miscellaneous or unknown causes.



Causes of Domestic Oil Tank Spills – 2003
Source: Canadian Coast Guard

Tank Types and Replacement

The type of tank is a factor in the susceptibility to failure and spills. Over 90% of tanks installed in Nova Scotia are steel tanks. Manufacturers' warranties vary depending on gauge of steel, outlet location (top, bottom or end feed), whether the tank is single walled or double walled, and whether the tank is galvanized steel shell with a polyethylene bladder, corrosion coated with reinforced bottom or lined, stainless steel, fibreglass, or the Hoss or the Roth type tank. These latter two tanks have a lifetime, $2 million dollar cleanup warranty and a 10 year $1 million dollar cleanup warranty, respectively. There are also significant price differentials between tanks. Costs, including installation and taxes, range from approximately $1,100 to $1,200 for standard 12 or 14 gauge steel tanks, Roth tanks ranging from $1,500 to $1,700, fiberglass tanks ranging from $1,400 to $2,700, and the Hoss tank in the $8,000 range (prices based on estimates provided by the Department of Environment and Labour).

Insurers should recognize differences in the risk of failures or spills by type of tank in their underwriting practices and rates. Discounts should be available for fibreglass, double lined, Hoss or Roth tanks, etc. Reduced insurance premiums for those who spend the additional money to acquire more reliable tanks may encourage more consumers to install the higher quality tanks.

If the replacement of tanks based on age would eliminate the 34.9% of the spills due to corrosion, this would be a significant improvement. However, as noted, this figure includes corrosion of lines as well. Age of a tank is only one of numerous factors that affect spills.

Further, the Department of Environment and Labour has concerns about the overall cost that replacement of tanks, simply on the basis of age, would have on the public in general, and more particularly on the low-income family.

Factors Affecting Tank Integrity

Factors affecting tank integrity are not addressed by simply replacing tanks based on age. Some of these are:

- location or environment of the tank, including whether it is indoors or out (indoors is recommended);
- protective coating on outdoor tanks;
- footings which may impact stress corrosion;
- vegetation in contact with the tank; and
- perhaps most significant, the practice of transferring old oil to a new tank.

Training of Installers

The insurance industry, government, and the Canadian Oil Heating Association appear to be in agreement as to the need for training of installers to ensure that installers meet the industry installation standard, CSA B139. Both the Canadian Oil Heating Association and the insurance industry support not only training certification, but also licensing of installers. The Canadian Oil Heating Association, pursuing a recommendation of the Government and industry, *Domestic Oil Tank Management Program Working Group Report and Recommendations*[4] [34a], has been working to develop a program in conjunction with the Nova Scotia Community College to certify installation technicians. This is anticipated to be in place in the spring or fall of 2005. Government appears to be reluctant to license installation technicians due to fear of liability and administration costs.

It is the Board's view that training, certification, and licensing of installers may be an appropriate role for Government and the cost should be borne by the public. The problem of oil spills itself overrides the costs to the consumer of insurance and is both an environmental cost and a health cost to the public if we fail to address this issue.

Transfer of Old Oil

The transfer of old oil to new tanks, a common practice, is a major concern. Old oil transferred in whole or in part to a new tank, may contain sludge, water, bacteria, and other contaminates, all of which may be corrosive. This transfer of old oil can react with the new metal to quickly corrode the new tank, and even though the tank may have had a ten-year life span, once this old oil is put into the tank, that ten-year life span can be immediately reduced, sometimes to as little as eight months! The Canadian Oil Heating Association supports a prohibition on this practice.

Maintenance

Care and maintenance of oil tanks is another major factor affecting the risk of oil spills. There is a variety of measures that can be performed to reduce the risk of an oil spill. These include such steps as:

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[4] Submitted to Nova Scotia Department of Environment and Labour July 2003

- changing the fuel filter;

- removal of vegetation which may increase the rate of corrosion;

- re-leveling the tank to avoid stress; and

- checking vent and fill pipes, and

- ensuring protective coatings (i.e., paint) are in good condition.

If proper care and maintenance of oil tanks is to be the responsibility of the consumer, then better consumer education is essential. In addition, the insurance industry should recognize the benefit of proper maintenance, by providing a premium discount to homeowners that have maintenance service contracts, similar to the discount received if one has an alarm system. This would encourage a higher level of proper maintenance by the homeowner.

Tank Inspection

The cost of implementing a Government operated tank inspection program for the approximately 200,000 tanks in Nova Scotia is, in all likelihood, cost prohibitive. The fuel supplier, however, is in a position to undertake this role in a more cost effective manner and already has the expertise, or can easily acquire the expertise needed. One oil company has already initiated its own residential client tank inspection program. (The Board does not have any information about the extent of this inspection.)

It is recognized that a fuel supplier will be concerned about liability in the event of negligence in its inspections. Consideration must be given to the appropriateness of placing this risk on the fuel supplier, who certainly receives a benefit associated with the risk. If this is the case, the Board anticipates that the cost will eventually be passed on to the consumer, resulting in a transfer of cost from the insurance premium to the cost of fuel. However, over time, the reduction of spills will result in a reduction of costs to the public as a whole. Still, the option of implementing legislation limiting the liability of inspectors and of fuel suppliers that perform this service should also be considered.

Public Education

Other important factors affecting the impact and potential cost of a spill are valve protectors, gauge protectors, drip pans, secondary containment tubs and stability brackets, as well as the use of additives that reduce water and sludge, or kill bacteria. The public and the insurance industry must be educated to recognize these factors.

In December 2003, the Government undertook to develop and implement an enhanced education program for homeowners regarding domestic oil tank and tank accessory options. The Government further stated in its response to the insurance industry regarding the Working Group Report that it "fully supports the design and delivery of a training program for domestic oil tank installers." The Department of Environment and Labour committed to working with the Canadian Oil Heat Association-Nova Scotia to address this need. The Department also agreed to work with the oil service industry on an education campaign to promote maintenance of domestic oil tanks. The Department is still working to achieve these goals. A pamphlet to be distributed to the public, funded jointly by industry and government is close to completion. A pilot educational program aimed at real estate agents has been conducted and the program will be implemented shortly, providing real estate agents with the knowledge to pass on to homeowners about oil tank installation and maintenance.

Remediation

The cost of remediation must be considered. Estimates range from a low of $5,000 to $250,000. Based on IBC 2002 data, the costs in insurance claims were between $9 million and $10 million annually. Incidents are declining according to statistics gathered by the Canadian Coast Guard. However, the Canadian Oil Heating Association states that reclamation costs are not reducing.

Joint Efforts

It should be noted that when various insurers and the IBC were asked for the reason Government gave for not supporting regulation of oil tanks based on age, they replied that they did not know. This is difficult to accept since the insurance industry has been an integral part of the Working Group. Alternatively, the IBC has failed to communicate with its membership, demonstrating the lack of understanding on the part of all involved as to the issues involved in solving, what the insurance industry has indicated, is a major cause of rising insurance premiums.

9

Affordability and Availability Insurance Issues and Possible Solutions

General

It is clear that Nova Scotia has experienced the effects of a hard insurance market, and that some groups/individuals have been affected more severely than others. In the preceding soft market, insurance companies were setting rates at below cost. Even in homeowners insurance, where reliable statistics are generally readily available, in the name of competition insurers cut premiums below actuarial adequacy. This competitive price-cutting was more extreme in the commercial markets. The price-cutting continued for a number of years, and resulted in the consumer believing that the premiums being charged were appropriate and that they would remain relatively stable; the consumer did not realize that prices were artificially depressed. Therefore, the sharp increases in rates taken by insurers to get them to a level that is more in line with actuarial adequacy came as a shock to consumers.

Individuals on fixed incomes, small businesses, and volunteer groups on limited budgets were hard hit by the drastic increases in premiums and the stricter maintenance and renovation requirements that were imposed by insurance companies. Affordability and accessibility problems for homeowners and tenants during the hard market were not as widespread as in the commercial markets (which include the non-profit sector).

Seniors, often on fixed incomes, were affected (as indicated by various seniors groups that made representations to the Board). And, where insurers imposed stricter maintenance and renovation requirements, many homeowners, again, either on fixed incomes, or living in economically deprived areas, were affected.

The most prevalent problem was experienced within the commercial sector, and most significantly in the non-profit sector.

Non-Profit Organizations

Premium increases and restrictive underwriting have had a direct impact on the service delivery of non-profit organizations. Organizations such as the Boys' and Girls' Clubs and the YWCA are struggling to maintain adequate insurance coverage. Costs are skyrocketing. They cannot budget for large and unpredictable increases. The risk management programs that they have implemented do not seem to have impacted premiums.

The Board heard that all forms of activities dealing with the care of children are coming under increased scrutiny by the insurance industry. Activities involving the care of children are becoming uninsurable or cost prohibitive. Many summer camps are also being classified as high risk.

When organizations such as the Boys' and Girls' Clubs, teen health clinics, and child care facilities must reduce programs because of high insurance costs, or, in some cases, eliminate programs because insurance companies decide to no longer provide insurance coverage to them, the most vulnerable in society are affected. Those most at risk, those to whom the government owes the greatest degree of care, are most affected.

Legions in Nova Scotia have experienced huge increases in their liability premiums despite few claims, a declining membership, and improved risk management practices (such as training in bar tendering). In addition, insurers that had been providing insurance to the legions are withdrawing from this market. These market conditions appear to be attributed to insurance industry concerns over the legions' exposure to liquor liability claims. As a result, the operations of several legions are threatened. The legions have tried to work out these issues with the insurance industry, but so far with little success.

Hundreds of small community based sports and recreation organizations are experiencing difficulty in acquiring insurance. Many small community activities such as parades, fairs, and festivals are threatened because of the cost of insurance. Government initiatives towards good health and healthy living are being thwarted by the inability of sports and recreation groups to obtain affordable insurance. Many small community activities such as parades, fairs and festivals are being threatened because of the cost of insurance. One presenter representing a non-profit group established to organize a family reunion in celebration of the Acadia 400th Anniversary was quoted a $1,575 premium for the two-day reunion. No food or beverage was part of the organized program, only speakers, visiting and such. This kind of cost is prohibitive and will have a detrimental effect on tourism as well as the culture of Nova Scotia.

One in four Nova Scotians is active in a non-profit organization. Volunteerism itself is threatened by the cost and availability of insurance. People feel vulnerable without proper Directors' & Officers' coverage. Fundraisers feel frustrated seeing all their efforts going to pay insurance premiums. It is difficult to recruit volunteers for good causes, and insurance premiums are not perceived as a "good cause."

Most volunteer organizations have stated that they are claims-free and that they are unaware of any claims made by organizations similar to their own. The industry data collected by IBC and reported to the Board in response to the questionnaire is limited, but to the extent that it exists, seems to support the anecdotal position that volunteer non-profit organizations have experienced few claims.

Small Businesses

The recent hard market has also seriously affected small businesses. The Board received a presentation from the Canadian Federation of Independent Business (CFIB), representing 5,000 small and medium-sized businesses in Nova Scotia. The report states, "Since 2002, insurance premiums have been the input cost with the most significant impact on small businesses." In 2003, 78% of its members identified "the high cost of insurance as their *most significant* challenge" (emphasis added). Their survey of membership shows that 97% purchase property and liability insurance, half of which carry the "small business package." The three main issues they have identified are "escalating costs, lack of access and the disconnect between precautionary measures (risk management) and rate reduction."

Between May 2002 and May 2003, 57.8% of CFIB's Nova Scotia small and medium sized businesses received premium increases of 20-100%. Another 6.8% received increases of more than 100%. This means that 3,250 businesses received a 20% or greater increase in insurance premiums in a single year. The "small business package" increased more than 20% for 53.3% of the CFIB's members. The Board believes that this is due in part to an increase in minimum premiums, from the $750-$850 range to $1,000.

CFIB points out that for most businesses, insurance is a necessity, not an option and that unless they are insured a business may not be able to obtain financing.

Notwithstanding the "softening" of the insurance market reported by industry, high insurance premiums have had significant impact on business according to the 2004 responses of 652 small Nova Scotia businesses. These impacts include reduced profits, increased prices, lost opportunities, loss in customers, and lay-offs of personnel.

Availability, or lack of access to insurance, was also identified as a problem in the presentation. Businesses are being denied coverage and are forced out of business as a result. They quote a submission by IBANS to the Utility and Review Board that states, "The inability of some commercial ventures to obtain insurance runs counter to government growth strategies in attracting business, and is of serious concern to our members."

In a joint presentation from TIANS, Recreation Nova Scotia, Sport Nova Scotia, The Restaurant Association of Nova Scotia, and the Canadian Volunteerism Initiative, Nova Scotia Network, numerous examples were cited of tremendous insurance premium increases resulting in businesses closing, or a curtailing of operations.

During the public hearings, the Board received presentations from businesses that no longer carry insurance because it is not affordable and from others confirming the high premium increases.

Although small business attendance at the public hearings was limited, the Board accepts the representations made by both CFIB and the TIANS group, as well as the written submission of the Nova Scotia Chamber of Commerce as reflecting the concerns of small business and the impact felt by them of increasing insurance costs and that this is a widespread problem.

Current Situation

The hard market now appears to have run its course (subject to the fall hurricane season whose impact is yet to be seen) and is leading into a soft market insurance environment where insurance availability and affordability conditions should generally improve.

Although Government intervention has not been required to achieve this softening market, the Board believes that the cyclical nature of the extreme hard and soft markets that causes hardships to various individuals and groups is a matter that should be addressed. Insurance companies, brokers, and consumers are best served by a stable insurance market.

Nova Scotia cannot change the cyclical nature of insurance; forces that are external to Nova Scotia drive the timing and length of hard and soft markets. However, the information the Board has gathered and which is presented in this report, suggests that the Government and the insurance industry should take certain measures or actions to address several issues that affect both affordability and availability of insurance in Nova Scotia.

Affordability and availability are very closely associated. A factor that changes one aspect will often impact the other. The Board has also found that *insurability* is generally perceived by the public as an availability issue. In our analysis and recommendations that follow, the Board has set out the impact that we anticipate the implementation of our suggestions would have on both affordability and availability. In doing so, we have also considered the impact on insurability. The impact assessment is intended merely to point out what aspect, either affordability or availability, that the implementation of the suggested action or recommendation could have.

Recommendations - Introduction

The Board's recommendations are presented in four main topics: the issues, potential actions, or recommendations that apply to:

- both homeowners and commercial insurance;
- only to homeowners insurance;
- only to commercial insurance, which includes the non-profit sector; and
- special interest groups.

Recommendations - Homeowners and Commercial Insurance

1. Track Basic Policy Information, Detailed Risk Experience Data, and Expense Information

In order to address the long-term problems of insurance affordability and availability, more information is needed. Because collection and reporting of premium and loss data for homeowners insurance, commercial property and liability insurance, as well as director's and officer's insurance, is not mandated (except commercial liability in Ontario), complete information is not available.

The Board's concerns as respects the reporting of personal property, commercial property, and commercial liability premium and loss data were discussed previously. The current available data:

- is relatively old;
- represents the experience of only half of the insurers operating in Nova Scotia;
- lacks important information;

- is not sufficiently detailed; and

- may not be reported in a consistent manner.

Tracking *basic* information such as number of policies written and average premium charged on a fast-track basis - by insurer, by type of risk, by region, and other criteria, would enable the Government to monitor the degree to which availability or affordability problems exist within Nova Scotia. With a formal monitoring mechanism, corrective actions can be taken in a timely manner.

The mandatory reporting of *detailed* personal property, commercial property, commercial liability and director's and officer's insurance risk experience and claims data into a statistical plan would enable the Government to assess the reasonableness of insurance rates. Some of this information is currently captured by IBC as part of the Statistical Plan. However, it is neither complete, nor timely, as most of this information is collected on a voluntary basis. To be of greatest value, and to have the most credibility, information is needed from all insurers and must be provided and compiled on a timely basis. It is preferable to collect this information on a Canada-wide basis, but this data, particularly with respect to homeowners insurance, would still be of value if collected only for Nova Scotia. The IBC was not receptive to the Board's suggestions that new data might be captured in a statistical plan on a going-forward basis. Aged computer systems and other priorities were cited as reasons. However, the last time there were significant industry code changes was 1995. Mandatory reporting of commercial liability data is required by Ontario as a result of the Ontario Task Force on Insurance, whose recommendations were implemented following a crisis in the commercial liability insurance markets during the late 1980's. Since 1990, commercial liability data has been collected for Ontario to allow both industry and government to monitor availability and affordability trends in general liability insurance. Appendix-Exhibit 15 is a description of the statistical plan in Ontario.

Insurance company expenses, such as commissions, premium taxes, other marketing expenses, administrative expenses, survey and inspection expenses, and reinsurance premiums, etc., also impact the premium charged by insurance companies. Currently expense information is reported to IBC only for automobile insurance, and this is done on a voluntary basis.

According to IBANS, the commission rates paid to brokers vary somewhat by type of insurance (e.g., automobile, homeowners, commercial), by class of risk (for commercial), and by company. But the standard commission rate paid to brokers is 20% of the premium for homeowners and most commercial insurance. This applies to both new business and renewal business. In addition, the commission paid to general agents (for the markets that they serve) ranges from 2% to 15% of the premium, and while often this is in addition to the premium paid to the broker, the work performed by the general agent is work that normally is performed by the insurance company. The Board did not explore the merits of these commission rates, but notes that 20%-35% is a significant portion of the premium dollar, and that as insurance premiums sharply increased during the hard market, so did the commissions paid to brokers and general agents.

In its submission to the Board, the CFIB commented, "The provincial government may inadvertently be compounding the problems facing the industry through the insurance corporations' tax, which is a percentage of the cost of insurance premiums." For personal property, commercial property, and commercial liability, the premium tax in Nova Scotia is 4.5%. While at 4.5%, the premium tax is low relative to the commission rates that are paid by insurance companies (see above), like commissions, as insurance premiums increase, the amount of premium tax collected by the Government also increases. As an example, consider the premium increase for the YMCA of Halifax discussed earlier. Of the $10,895 premium the YMCA had been paying, $490 was for the premium tax. Of the YMCA's new premium of $27,932, $1,257 was for the premium tax. This means that the Government collected an additional $767 from the YMCA simply due to the increase in the premium charged by the insurer. The CFIB has called for "an examination of the taxation faced by the insurance industry and the services the industry and consumers receive for this taxation."

A way to better collect and compile such detailed information needs to be developed. With respect to the collection of detailed premium, loss, and expense information, possibly the Canadian Council of Insurance Regulators, a voluntary body whose members include the Nova Scotia Superintendent of Insurance and other provincial Superintendents, could address this; however, this is not currently part of its long-term strategic plan. Alternatively, a joint insurance committee for Atlantic Canada could be established to do so.

Recommendation 1

IMPACT: Affordability-Positive
Availability-Positive

The Board recommends that Government charge the Superintendent of Insurance with the responsibility of:

(a) Establishing a "fast-track" procedure for collecting and monitoring basic policy information for homeowners insurance for Nova Scotia;

(b) Working with other provinces, either on a Canada-wide basis or on an Atlantic-Canada basis, to establish mandatory statistical plan reporting, and timely compilation and release, of detailed premium, exposure, and claim information for personal property, commercial property, commercial liability, and director's and officer's insurance;

(c) Working with other provinces, either on a Canada-wide basis or on an Atlantic-Canada basis, to establish mandatory reporting and timely compilation and release, of detailed expense information for personal property, commercial property, and commercial liability insurance.

2. Timing and Content of Notices to Consumers

The Board heard many complaints from the public regarding the notices they received from insurers for large premium increases or for non-renewal or cancellation of their insurance coverage. They said that the notices were not timely, nor did they provide reasons for the insurance company actions. Insufficient notice has caused significant anxiety for the consumer who must obtain insurance elsewhere, very quickly. This can be difficult to do, and when this occurs, it is identified by the consumer as a lack of availability of insurance.

The insurers told the Board that they look to the brokers to communicate premium and coverage changes to the policyholder. The brokers confirmed that they are the primary communication source for the consumer.

Insurers generally inform the brokers of their premium or coverage actions 45 to 60 days prior to the end of the policy period. It is then the brokers' responsibility to inform the policyholders of the insurers' actions. Brokers attempt to convey the actions as quickly as possible, with a full explanation. However, IBANS does not have prescribed policyholder communication standards, and practices vary from broker to broker. As a result, it is likely that some policyholders are notified in a manner that they view as untimely and or not fully explanatory. The Board notes that even 45 days notice of non-renewal may not be enough time for the policyholder to make alternative insurance arrangements, particularly in a hard insurance market. Current legislation is applicable only to fire insurance, and requires 15 days notice of termination by registered mail or 5 days notice if personally delivered.

Recommendation 2

IMPACT: Affordability-Neutral
Availability-Positive

The Board recommends that:

Government require that policyholders be given at least 45 days prior written notice of non-renewal, cancellation, coverage restrictions and premium increases, along with a full explanation of the reasons.

3. Recognition of Provincial Legislation

The Board questioned the insurers on various Provincial statutes – the *Volunteer Protection Act*[5], the *Heritage Property Act*[6], the *Occupiers' Liability Act*[7], and the *Occupational Health*

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[5] supra fn 1

[6] supra fn 2

[7] supra fn 3

and Safety Act[8] - to determine the impact these statutes have had on insurance company underwriting and rating practices. From their responses, it is clear to the Board that insurers as a whole give very little import to these statutes and have relatively little knowledge of them. For example, some companies did not appear to fully understand the limited application of the *Heritage Property Act*[9], that is, its impact on only the façade of a home or building. Nor were any insurers aware of the protection offered under the *Occupiers' Liability Act*[10] regarding recreational trails.

Essentially, the insurers told the Board that these statutes have little impact on their practices because the insurers are waiting to see how the courts will interpret the legislation. Very little recognition is given to Nova Scotia legislation. They also told the Board that, to the extent that legislation does impact claim experience, the impact will eventually be reflected in the claims data that they consider in setting rates. But given the time it takes to resolve major claim related issues in the courts, and the timeliness of the reporting of industry data, the insurers are essentially saying that it will take many years for any impact to affect insurance premiums.

The Board asked IBANS how it informs its members of legislative matters that impact on insurance. IBANS advised that it does not have a committee to review and consider the impact of new legislation. Yet, it is the broker's ability to represent the insured's case to the underwriter that often makes a difference in insurability and premium cost. If brokers are unaware of changes in legislation and their impact, the Board submits that they are not able to properly represent their client's needs. One example cited earlier is the *Heritage Property Act*[11]. It is evident to the Board that the level of awareness of particular legislative provisions that are intended to protect consumers is limited. This may impair the ability of brokers to obtain the best deal for the consumer.

IBANS is now in the process of implementing a licensing program, being the last province in Canada to do so. It is expected that this will improve the quality and consistency of service throughout the province. However, this will be a long-term process. Once this process is in place, the Association hopes to focus on continuing education, but it expressed concern over the current availability of appropriate educational courses.

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[8] R.S.N.S. 1996 , c.7

[9] supra fn 2

[10] supra fn 3

[11] supra fn 2

Recommendation 3

IMPACT: Affordability-Positive
Availability-Positive

The Board recommends that:

IBANS upgrade the continuing education program for its members and include legislative updates affecting the insurance industry.

4. Volunteer Protection Act

Over 1,000 non-profit organizations were represented at the Board's public hearings. Volunteers and volunteer organizations are a critical part of our society. But while it is estimated that one in four Nova Scotians volunteer, the Board was advised that volunteerism is diminishing; it is getting harder and harder for organizations to recruit and maintain volunteers. One of the reasons repeatedly cited is that people do not want to volunteer their services in order to pay ever increasing insurance costs of their volunteer organizations. They are also concerned about their own personal liability and fear they may become personally liable for the actions of the organization.

Non-profit groups that appeared before the Board reported, almost without exception, that despite having had no claims their premiums were continually rising. Insurance premium increases ranging from between 35% and 300% or more were reported to the Board; one group reported a 730% increase. Statistics published by IBC do not demonstrate why such increases have occurred. In fact, IBC does not collect data that distinguishes non-profit organizations from commercial enterprises. The Board has made recommendations that address the need to collect this information.

For some non-profit organizations, those that raise funds through the sale of alcohol, liquor liability has had a significant impact on their premiums. The question of liquor liability is dealt with separately under Recommendation 5.

The *Volunteer Protection Act* attempts to address the problems faced by volunteers, but it has not succeeded. The Board questioned groups directly about how the Act had affected their premiums, and their discussions with insurers, and was told over and over again, that the Act did not make a difference to the premium charged.

Both groups, volunteer organizations and the insurance industry, recognize that the Act is intended to protect individual volunteers from personal liability for negligence, but that it does not offer protection for the volunteer organization itself, nor does it offer protection to employees of the organization.

The advice received from brokers, and IBANS, is that the Act does not fully protect even the individual volunteer. That is, the Act only applies to general liability for directors of non-profit organizations, and does not provide protection in matters such as wrongful dismissal of an employee, or non-remittance of withholding taxes by an officer of the board. However, it is the Board's understanding that even directors' and officers' insurance does not usually cover the former, and that liability in the second instance is beyond the coverage usually purchased by non-profit groups.

Further, to add even more confusion to the situation, individual volunteers who have sought legal counsel about the Act regarding their own liability, have been advised to continue to obtain insurance since the Act has not been tested by the courts. The insurance industry also takes this position.

How should the problem of increasing insurance costs faced by volunteers be addressed?

If the organization has little or no assets, nor any employees (operated solely by volunteers), and if the *Volunteer Protection Act* does what was it was intended to do, then insurance is not necessary. The individual volunteer is protected under the Act for his or her own negligence, and even if sued, the organization has little to lose. One would therefore think that high insurance premiums should not be a problem for this portion of the volunteer sector, but it is. Government, industry and the volunteer sector need to work together to ensure there is an understanding of the exposure of these groups to liability claims.

The more difficult problem is that of the high insurance premiums faced by the volunteer organizations that have assets or employees, or both. The Board believes that this problem can be addressed in two ways - either through the premiums that are charged, or through legislation exempting the organization from liability.

The first step should be to determine if the premiums being charged are reflective of the risk posed by this segment of the non-profit sector. If this is not the case, Government could consider taking action to control rates. If the premiums are justified then Government could consider limiting the risk to insurers by limiting liability. But, there are many issues surrounding these options.

Any attempt by Government to limit the liability of volunteer organizations, for example to gross negligence, should be balanced against the resulting cost to parties that are injured by the actions of volunteer groups. Part of this balancing is the consideration of how any such limitation would apply. For example, would protection be offered to organizations that have employees? Would protection only be offered to certain types of organizations, or those meeting specific criteria? And, of course, the rights of the victims must be considered. An injury compensation plan would be an option to address the needs of the injured persons.

The problem of affordability for volunteer organizations should be addressed, and in the near-term. The Board believes the first step is to collect data and analyze it to determine if rates properly reflect the risk of the non-profit sector.

Recommendation 4

IMPACT: Affordability-Positive
Availability-Positive

The Board recommends that:

(a) Government work with industry and the non-profit sector to ensure full awareness and clear understanding of the protection offered by the *Volunteer Protection Act*.

(b) Government require, through the Board, that by a special data call, insurers provide detailed historical liability claims data for non-profit organizations, for Nova Scotia and Canada – by organizations that are solely volunteer and organizations with employees - and that the Board conduct a special study of the industry data to determine if the premiums being charged reflect the liability risk of the non-profit sector.

5. Investigate Liability Costs

The insurance industry would like Government to take legislative action to curb liability costs. For example:

- Legislation limiting liability for non-profit volunteer organizations to gross negligence (i.e., treat the organization like the volunteers), as discussed above;
- Limiting recoveries for minor injuries such as slips and falls; and
- Limiting liquor liability.

The Board is reluctant to recommend any of these legislative actions without stronger evidence of the nature and extent of the problem.

Limiting liability for non-profit organizations is discussed above.

There were some presentations to the Board expressing concern that claims for minor injuries, referred to as "slips and falls," were on the rise. Some expressed the view that without a limitation on liability such as the limitation on minor personal injury claims resulting from automobile accidents, the number of claims for slips and falls would further escalate. However, it is the Board's view that a strong case for limiting recoveries for slips and falls claims has not yet been made. No data was provided to show that this is a significant factor in the rising cost of insurance premiums.

The main concern expressed by the insurance industry is liquor liability. Insurers stated that increasing claim costs related to liquor liability is the reason for rising premiums-- not only for bars and taverns, but also for non-profit organizations such as legions that also sell alcohol. Premiums for non-profit organizations and commercial enterprises that serve alcohol have escalated dramatically, and availability has been curtailed by the withdrawal of insurers from the market. Yet, again, the insurance industry has not provided reliable data to show that claims due to liquor liability justify rising insurance premiums or that risk has increased.

Nor has there been any real change in the law related to liquor liability in the last ten years or so that would account for the increased premiums and market restrictions that have occurred. Recent changes have been in relation to the home party, and these changes would not impact the risk for commercial or non-profit organizations that serve alcohol.

Based on the assertions made to the Board, the Board speculates that there has been an increase in the frequency of liquor related claims, but this cannot be verified by the data collected by IBC because liquor claims are not separately identified.

Whether the insurance industry concern over increased litigation is real or is merely based on perception, it is evident from the insurers' representations that the industry's concern over increased litigation has been and continues to be a major driver of escalating liability insurance premiums and market restrictions in the Province. In particular, insurers are reluctant to provide liability insurance to businesses and groups that sell alcohol.

However, without better evidence that minor injury or liquor liability claims are increasing, and that liquor liability has been extended by the courts beyond what is acceptable to society, the Board does not believe that legislative action curbing liquor liability claims is an appropriate action at this time.

The Board believes insurance companies do have the type of data that is needed for Government to assess whether or not the concerns expressed by the insurance industry with respect to minor injury claims and liquor liability claims are real or perceived problems - the insurers simply do not report the data to IBC.

Recommendation 5

IMPACT: Affordability-Positive
Availability-Positive

The Board recommends that:

(a) Government require, that the Board, in conjunction with Recommendation 4(b), make a further special data call, requiring insurers provide detailed historical liability claims data, for Nova Scotia and Canada – by type of injury, nature of injury, cause of injury, number of claims, amount of claims, etc. and have the data analyzed to gain a better understanding of the costs attributed to liability claims and the factors that may be contributing to those costs

(b) If the analysis finds that non-automotive minor personal injuries and/or liquor liability are significant factors in rising insurance premiums, legislative action limiting recovery for non-automobile minor personal injuries and legislation limiting liquor liability should be considered.

6. Establish an Insurance Complaint Database

As the Board traveled throughout the Province, we heard many complaints from the public about a variety of insurance issues. Currently the Office of the Superintendent of Insurance and the Insurance Consumer Advocate handle or receive consumer complaints. However, no database is maintained.

The Board believes that an insurance complaint database would help Government to identify, anticipate, and address availability or affordability problems in Nova Scotia. With a formal complaint monitoring system, corrective actions can be taken in a timely manner. A database can utilize information that is currently gathered by both the Superintendent of Insurance and the Consumer Advocate and which now has only limited value. This type of database is available in at least one other jurisdiction and it is used to identify trends.

Recommendation 6

IMPACT: Affordability-Positive
Availability-Positive

The Board recommends that:

Government charge the Insurance Consumer Advocate with the responsibility of maintaining an insurance complaint database, and require the Insurance Consumer Advocate to report on it annually to the Board and to the Minister responsible for insurance.

7. Establish Alternate Dispute Resolution Process

The *Financial Consumer Agency Act of Canada*[12] and the *Personal Information Protection and Electronic Documents Act*[13] (PIPEDA) are both Federal legislation designed to offer protection to consumers and, to some extent apply to the consumer of insurance.

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[12] S.C. 2001, c. 9

[13] S.C. 2000, c. 5

The *Financial Consumer Agency Act of Canada*[14] requires all federally incorporated or registered insurance companies to establish an internal complaint handling process for consumers, and to have an external dispute resolution system. The insurance industry has established the General Insurance OmbudService (GIO) in response to this legislation. A consumer that has a complaint is required to follow the insurer's formal complaint process. If the matter is not resolved, the insurer will send the consumer a final letter of position explaining how it plans to resolve the complaint. If the insured is not satisfied with the insurer's proposed resolution, the matter can be referred to the GIO for mediation. This mediation is non-binding, and if the matter is not settled by discussion, the mediator prepares a report with non-binding recommendations for either party.

The GIO deals with consumer complaints concerning automobile, home, and commercial insurance matters relating to claims and coverage interpretation. It does not deal with matters related to availability or affordability, nor insurability. It does not apply to the many areas of concern expressed by consumers, non-renewal of policies, large increases in premiums with no explanation, or despite no changes in the risk, nor questions concerning the quality of home heating, plumbing, electrical systems or roofs. It does not apply to the sufficiency of notices requiring costly or extensive home improvements, and this process does not cover the risk management practices of a commercial business.

The Federal government, under PIPEDA, has a procedure by which a consumer is entitled to access to his or her personal information that is maintained by an insurer. This should provide the consumer with the ability to access HITS, a database managed by IAO that is used by insurers to determine the claim record of potential customers (applications for insurance are checked against the information in HITS). Most companies participate in populating the database.

The Board heard complaints from the public about this database. The complaints concern privacy issues and the accuracy of the information.

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[14] supra fn 14

The response from insurers is that they comply with the privacy protection laws in using the information, which is PIPEDA. Insurers, in compliance with PIPEDA require waivers from consumers to allow the insurer to confirm information requested on their insurance applications. This means that a consumer who wants insurance must give up his rights to privacy.

As respects accuracy of the information and the ability of a customer to correct any incorrect data, the HITS report apparently is not generally made available to the customers to allow the customer to verify its accuracy and identify errors that need to be corrected. But, according to IBANS, where there are discrepancies between what a customer puts on an application and the information in the HITS report, the brokers will usually discuss the matter with the customer.

In addition, the Board learned of an IBC organization called the Insurance Crime Prevention Bureau (ICPB), which was formed about 80 years ago to investigate suspicious claims. Although still conducting investigations, the ICPB is moving away from claims investigations and into "ring" investigations - that is, insurance crime ring investigations. The ICPB maintains three databases: for claims, for investigations, and for stolen vehicles. Insurers report suspicious claims to the ICPB and have access to their database. Again, this data is apparently not readily available to the consumer.

Concern by the Board about the public's inability to access their own personal information led the Board to review the provisions of PIPEDA. PIPEDA contains a model code and provides obligations and guidelines applicable to an organization which collects personal data. Numerous submissions from industry have indicated that they have programs and policies in place in order to comply with PIPEDA.

There is a requirement for companies to have a complaint and inquiries procedure, to designate an individual within their company to deal with their policy, to take reasonable efforts to ensure the individual is advised of the purposes for which information is to be used or disclosed, and dealing with the form of consent and so forth. Upon request of an individual for their personal information, the individual is to be informed of its existence, use, and disclosure, and given access to that information. An individual is to be given the opportunity to challenge the accuracy and completeness of the information and have it amended as appropriate. There must be a procedure for complaints and inquiries established by the organization, although this may be by reference to an outside body, such as a regulator.

If an individual has a complaint regarding compliance with PIPEDA, there is a complaint process to the Privacy Commissioner who may initiate a formal complaint, conduct an investigation, and utilize mediation or conciliation mechanism. However, the Privacy Commissioner is only required to complete his/her report within one year and if due to time lapse there is no longer any useful purpose for it, no report is required. An application to Federal Court is also available if an individual is not satisfied with the report.

Notwithstanding the provisions of PIPEDA, the Board remains concerned about the public's ability to obtain personal information and take corrective action, if necessary, on a timely and inexpensive basis. Consumers cannot wait a year for a determination nor is the average consumer able to afford to take the matter to Federal Court. Insurance is critical to both homeowners who require insurance in order to have a mortgage, and to commercial enterprises that need insurance to obtain mortgages, financing or even government grants.

Recommendation 7

IMPACT: Affordability-Neutral/Positive
Availability-Neutral/Positive

The Board recommends that:

A speedy alternate dispute resolution system be established under the office of the Insurance Consumer Advocate, whereby consumer complaints relating to:

- insurance premiums
- availability of insurance
- insurability, including the necessity of home improvements demanded by insurers
- sufficiency of grace periods for completion of home improvements
- proper notices of cancellation, non-renewal, change or restriction on coverage
- proper notices of increase of premiums and
- personal information captured by insurers and access to same

would be investigated and mediated, failing which, the complaint would be referred to an impartial arbitration or dispute resolution process, outside the jurisdiction of the Insurance Consumer Advocate.

8. Improve Communication Between Industry and the Consumer

Communication between the industry and the consumer takes place largely between the policyholder and the broker. Insurers reported to the Board that they were not aware of any communication problems.

But the Board received many representations from the public indicating otherwise. The lack of a consistent approach by the insurance industry to oil tank standards, home improvement standards and the like, as well as the failure of industry to keep the consumer apprised of safety matters such as woodstove safety, has led to confusion and frustration on the part of consumers. Further, consumers do not seem to be well informed about the benefits of implementing good risk management practices and cost saving measures that are available such as smoke and burglary alarm discounts.

Another such cost saving measure is the use of deductibles. A deductible is the amount of a claim that is not reimbursed by the insurance company. For example, if a homeowner suffers a theft loss of $2,000, and carries a $500 deductible, the insurance company will pay the insured $1,500. The benefit of the deductible is that it serves to eliminate small, nuisance claims, and as a result, is a means of reducing premiums costs. Also, higher deductibles represent an opportunity for insureds to reduce their insurance costs by 10% to 20% or more.

Insurers reported to the Board that the most commonly purchased deductible amount is $500 for personal property, and $1,000 for commercial property. In the Board's view, such amounts are too low to be of any real benefit to either consumers or insurers. Such relatively low deductibles fail to eliminate nuisance claims. In addition, it is not in an insured's best interest to report a small claim because the resulting claim experience surcharges on future policy premiums will likely exceed the amount of the claim. Most insureds are afraid to make a claim, and even brokers are encouraging their clients to forgo small claims. Yet, insurers have done little to encourage the purchase of higher deductibles.

The Board feels that the communications from insurers and brokers to consumers has been lacking, particularly during the difficult hard market period. Better and more consistent communications from the insurers and brokers to the consumers are needed, and this would be best achieved through IBANS and IBC.

Recommendation 8

IMPACT: Affordability-Positive
Availability-Positive

The Board recommends that:

(a) IBANS establish a business practices committee to set standards for its members' operations to ensure consistency in the manner brokers deal with the public, such as explaining available options available to consumers to reduce premiums, higher deductibles and availability of discounts.

(b) IBC provide both broker training and consumer education on risk management practices such as oil heating and woodstove safety, on safety and preventative initiatives such as block parents, and 4-H, and on assessing and managing risks in general, through seminars, brochures and news articles.

(c) IBANS establish business standards that require their members to explain the deductible options that are available and the effect that each has on the policy premium to all insurance applicants and to provide this information in all renewal notices. Insurers that deal directly with consumers, without brokers, should also take on this responsibility.

9. Inspection Services

The Board heard numerous public complaints about the inspection services employed by insurers, while insurers generally did not acknowledge a problem in this area.

Insurance companies use both in-house personnel as well as third parties to inspect homes and businesses in order to assess their condition prior to issuing an insurance policy. Businesses are more frequently inspected than homes because, as discussed previously, they are typically individually rated. Home inspections usually occur when a customer first seeks insurance, or when the electrical, heating, or plumbing systems, or oil tanks or roofs, approach a certain age. And during a hard market, inspections occur more frequently.

The public expressed concern that inspectors used by insurers are not qualified. Many insureds felt that the repairs required by the insurance company inspectors were costly and unnecessary, yet they were told that unless the repairs and improvements were made, they would not be insured. Some disputed the assessment they received and were forced to hire electricians, plumbers etc. to verify that the repairs were not required. Others simply made the repairs or went uninsured. Homeowners also complained about the length of time that was allowed them to complete the repairs, though three to six months was not uncommon.

The Board questioned the insurers on the qualifications required of their inspectors, and learned that there are no set standards. Some insurers use individuals with claims adjuster backgrounds; others use individuals who they feel have appropriate experience. Larger insurance companies provide training programs, or utilize the courses offered by IAO designed for this purpose. Companies do not require professional designations of their inspectors. Professional electricians, plumbers, roofers and so forth may be used at the customer's cost, where the customer disputes the inspector's findings.

The Board believes that the problem is not so much an issue regarding the training or lack of training of inspectors, but rather the underwriting criteria imposed by the insurers. The inspector merely checks to see if a property meets the individual insurer's criteria. These criteria vary amongst insurers.

Recommendation 9

IMPACT: Affordability-Positive
Availability-Positive

The Board recommends that:

No action be taken by Government at this time to regulate the qualifications of inspectors, but insurers should further the education of their inspectors through courses offered by IAO and technical colleges.

10. Investigate All Risk Underwriting

The Board solicited information to determine if particular areas of the Province were having insurance availability problems on a systemic basis, either due to location or another factor. Insurers were asked whether they use postal codes to determine if they would write insurance in an area. The Board found that insurance companies do use postal codes, but largely to designate territories based on availability and type of fire protection.

One company acknowledged withdrawing from the Glace Bay, Dominion, and New Waterford area due to poor claims results, but admitted that it was unable to identify a particular cause for its poor experience in this region. Another indicated that particular areas of the Province have better claim experience than others and recognition of this affects how they market and price their insurance products.

Industrial Cape Breton may also face a particular availability problem due to the concentration of coal heating furnaces in the area. This particular risk is not one most insurers are willing to accept.

Presenters to the Board suggested that insurers licensed to carry on business in Nova Scotia be required to accept the full set of risks in Nova Scotia or "to take all comers." That is, if insurers refused to provide insurance in certain areas (redlining) or to certain types of risk, they would not be allowed to write insurance in Nova Scotia. This action would ensure that insurance coverage is available; many jurisdictions in North America have anti-redlining laws.

But not all companies have the expertise to insure all types of risks. Insurers were quite clear on this: they develop areas of specialization. Therefore, this action is only feasible if it applied only to the particular types of risks that an insurer chooses to insure. Further, this could result in insurers leaving the Nova Scotia market, ultimately reducing insurance availability.

This action also does not address the primary issue: insurance affordability.

Recommendation 10

IMPACT: Affordability-Neutral/Negative
Availability-Positive

The Board recommends that:

Given the limited information provided to the Board on this issue, the Government should further investigate the idea of instituting a "take all comers" system of underwriting regulations.

11. Approval of Insurance Rates

The Government could require that rates charged by insurance companies for personal property, commercial property, and commercial liability insurance be subject to prior Government approval. This would provide the Government with the opportunity to review the reasonableness of any changes in the rates that an insurer would like to make before the changes are implemented. Rate changes deemed unreasonable would not be permitted. This could lead to greater stability in insurance rates, and it would provide the public with assurance that rates are being reviewed for fairness.

Since property and liability insurance rates are currently not regulated anywhere in Canada, and Nova Scotia is a very small portion of the insurance market, this action could result in insurers withdrawing from Nova Scotia and compounding the availability problems.

Further, because of the manner in which commercial property and liability insurance premiums are calculated for individual risks, prior approval of commercial insurance rates is not practical. Although approval of personal property rates is feasible, the Board does not consider such an action justified based on the information the Board has gathered.

Recommendation 11

IMPACT: Affordability-Positive
Availability-Neutral/Negative

The Board recommends that:

Government should not, at this time, subject personal property, commercial property, or commercial liability rates to prior approval.

12. Study Limitation on Premium Increases

In an attempt to address the problem of wide swings in rates, the Government could limit the size of premium changes that a risk can receive in any one year (e.g., 10%). This would help stabilize rates and would address a major concern expressed by the public.

However, for commercial insurance, this action could lead to availability problems. Insurers might choose not to insure a particular risk rather than charge what they believe is an inadequate premium. Restrictions on underwriting practices would then be necessary to prevent withdrawals from particular risks. There are practical difficulties associated with this action, as premium increases driven by increased exposure (e.g., more members, change in operations) or coverage (e.g., reduced deductible, higher amount of insurance coverage purchased) would need to be distinguished from true changes in rates.

For homeowners insurance, limiting annual increases is less likely to lead to a widespread availability problem. An insurer's recourse could be to withdraw from a particular postal code area, rather than merely choosing not to insure an individual risk. Still, it is possible that long-term availability would be affected if rates were kept below profitable levels. This in turn, could be addressed by having the maximum rate increase set on an annual or bi-annual basis taking into account a profit for the insurer.

Recommendation 12

IMPACT: Affordability-Positive
Availability-Negative

The Board recommends that:

Government study the idea of limiting the size of premium increases an insurer can charge in any one year.

13. Oil Spills

In Section 8, the Board presented the information related to reduction of oil spills and the resulting reduction of the cost of insurance. The Board identified a number of issues that seem to affect the frequency of oil spills, but the Board does not have the expertise to make recommendations in this field.

Therefore, the Board suggests Government have the appropriate experts consider the feasibility of the following actions, recognizing that even if all such measures are adopted, they will not eliminate the problem in its entirety (but should address the 34.9% corrosion problem and the 7.20% installation problem).

Recommendation 13

IMPACT: Affordability-Positive
Availability-Positive

The Board recommends:

(a) Government licensing of oil tank installation technicians, utilizing the course developed by the Canadian Oil Heating Association, the Nova Scotia Community College, and supported by the Department of Environment and Labour, in order to meet the installation standard as set out in CSA B136 code.

(b) Legislation prohibiting the transfer of old oil into a new tank, with severe penalties for violation.

(c) Legislation requiring suppliers of home heating fuel to inspect oil tanks and lines against Government specified standards, and prohibiting the filling of any tank that has not been inspected within a designated time period or periods, or fails to meet the specified standards. Consideration should be given to limiting the liability arising from these inspections, both to the inspector and to the company providing the service.

(d) Legislation eliminating the ability of insurers to refuse a risk due to the age of an oil tank if the oil tank has been installed by a certified oil tank technician, has been inspected within the designated time period, and meets the specified standards.

(e) Establishing a working group with the insurance industry, government, environmental consultants and contractors to investigate and make recommendations regarding the reduction of reclamation costs required by home heating oil spills.

(f) Enhancing efforts to educate the public and industry with regards to oil tank maintenance, proper installation, and the transfer of old fuel.

(g) The insurance industry better recognize steps taken by consumers to reduce risk. Discounts for fibreglass, double lined, Hoss or Roth tanks, etc. should be considered. Reduced insurance premiums should be offered for those who acquire more reliable tanks. An additional discount should be considered for homeowners who have an oil tank maintenance contract with an appropriate service provider.

14. Improve Availability Assistance

The Board asked the insurance industry whether a Facility Association type of organization, or market assistance program, could be effective in solving the problems of affordability and availability. Responses varied, but generally the Board determined that this would not alleviate the affordability problem.

But, with regard to the availability problem, insurance companies and brokers could establish a market assistance program for hard-to-place risks, in which insurers voluntarily agree to consider applications from consumers that are not able to get insurance coverage. This action would help address availability problems faced by individual homeowners or businesses.

While general agents (or the specialty market) serve the market for which such a program is intended, it is clear from the public's comments that finding insurance remains a problem for some. At a minimum, IBANS could establish a contact phone number or web site address for those that can't find insurance, and establish a mechanism to deal with the inquiries they receive.

Recommendation 14

IMPACT: Affordability-Neutral
Availability-Positive

The Board recommends that:

Insurers and brokers establish some or all of the following:

- a market assistance program
- a contact phone number and web site address for members of the public who are having difficulty finding insurance
- any other mechanism to handle consumer difficulties in obtaining insurance

Recommendations – Homeowners Insurance Only

15. Mandatory Filing of Insurance Rate and Underwriting Manuals

Automobile insurance rate manuals are currently filed with the Board. Rate and underwriting manuals for property and liability insurance are not filed, nor are these filed elsewhere in Canada.

The Government could require insurers to file their personal property, commercial property, and commercial liability rate and underwriting manuals with the Board – essentially a file and use system of regulation. Manuals could be available to the public.

This action could bring more discipline to the insurance rating process by requiring the premiums charged by insurers to be published in a manual. The rate manuals would help Government monitor rate changes, identify and monitor trends, help in the resolution of rate disputes. Access to manuals could also be of assistance to the Insurance Consumer Advocate particularly if the Board's recommendation charging the Insurance Consumer Advocate with responsibility for both maintaining a complaint database and for a dispute resolution process is adopted. It would also be helpful to those members of the public that wish to better understand how their premiums are determined. The Board believes that this may also increase competition.

However, because of the manner in which commercial property and liability insurance premiums are calculated for individual risks, these possible benefits would not be achieved in this portion of the market. Simply, most insurers do not have rate manuals for commercial property and liability. Risks are individually rated.

It is also argued that disclosure of underwriting guidelines, whether for homeowners or commercial insurance, are proprietary and their disclosure could lessen competition.

Recommendation 15

IMPACT: Affordability-Positive
Availability-Positive

The Board recommends that:

Government require insurers to file with the Board for public disclosure, their homeowners rate manuals, excluding proprietary underwriting rules or guidelines.

16. Publication of Rate Profiles

Government could develop rate profiles for typical risks in Nova Scotia that insurance companies would complete as their rates change; and the rating profiles could be displayed on the Board's website. While there would be costs involved in maintaining up-to-date profiles on the website, the publication of rating profiles could serve to increase competition and help stabilize premiums.

This is not practical for commercial property and liability insurance because of the manner in which premiums are calculated.

Recommendation 16

IMPACT: Affordability-Positive
Availability-Neutral/Positive

The Board recommends that:

Government require insurance companies to submit homeowners insurance rate profiles to the Board for posting on the Board's website.

17. Homeowners Policy Form

The insurance coverage that is provided by an insurer, and the duties and responsibilities of the insurance company and insured, are set forth in the policy forms and endorsements of the company. Personal property insurance policy forms used by insurers are based on the policy forms and policy language developed by IBC. But while based on the IBC forms, the policy forms are not standard; there is variation in policy language and coverage provided among companies.

Insurance companies take the position that variation in policy language and coverage benefits customers, as customers can shop around for the coverage and premium that best meets their needs. They state that brokers are responsible for identifying and explaining differences in coverage.

The Board is of the view that differences in policy language and coverage make it more difficult for customers to comparison shop insurance coverage. Insurance policy language is difficult to understand, even with the assistance of a broker. Some of the companies that were asked to identify how their policy differed from the IBC wording were not readily able to do so. However, the Board's review, which was not comprehensive, did indicate that many differences were merely stylistic or that changes that were made provided better coverage for the insured, such as increased dollar limitations.

The Board also found that during the soft market, companies tried to attract consumers by offering broader and broader coverages. These are reflected in the IBC standard forms. Many consumers are unaware of the coverage that is available under their policies, such as lock replacement if one's keys are stolen.

Consumers in today's market think of insurance as protection for major events – fire, windstorm, and theft - and have learned that making a small claim will impact their premiums. Brokers have even sponsored a television campaign telling the public not to make small claims. Those concerned with the cost of insurance may be willing to accept less extensive coverage. This can be offered in a variety of ways, perhaps a move back to the Broad Policy instead of the Comprehensive Policy, or indemnification for partial losses based on actual cash value instead of replacement cost.

That being said, there does not appear to be a public concern about the wording of the insurance policy, and likely most consumers do not read their policy until a claim is made. Industry efforts to provide standard policy wordings have been effective. Further, the formal standardization of the homeowner policy would not likely impact on affordability.

Recommendation 17

IMPACT: Affordability-Neutral-Positive
Availability-Neutral

The Board recommends that:

No action be taken at this time to mandate a standard policy form for homeowners insurance.

18. Broaden the Range of Lower Cost Products

Today's insurance policies have "all the bells and whistles." Most homeowner policies are comprehensive and also provide replacement cost coverage or guaranteed replacement costs. This means that an insured receives a replacement property for damaged property, with property that is of like kind and quality. Depreciation of the damaged property is not taken into account nor is the market value of the damaged property. Some members of the public indicated that they did not need this extensive type of coverage. For example, seniors may prefer homeowner policy coverage that only provides market value as they may not wish to rebuild a home, preferring a cash settlement which would allow them to retire and would provide immediate cost savings from lower premiums.

If insurance companies offered lower cost products with more limited coverage, such as a product that allows homes to be insured for market value and claims being settled on an actual cash value basis, this would help address the affordability of insurance coverage.

However, consumers may not fully understand the more restrictive coverage that they purchase, and could lead to an increase in disputes when claims are filed.

Recommendation 18

IMPACT: Affordability-Positive
Availability-Neutral/Positive

The Board recommends that:

Insurance companies offer and educate the public about a broader range of products, such as actual cash value or market value coverage policies, that will address the varying needs of consumers.

Recommendations - Commercial Insurance Only

19. Limitation on the Use of Minimum Premiums

Virtually all insurance companies have a minimum premium that varies by type of insurance. The reason for having a minimum premium is so that insurers can collect enough money to cover their policy processing costs. A typical minimum premium for commercial liability ranges from $750 - $2,500 (or higher). However, for some risks, such as legions, the minimum premium represents a significant financial burden. The Board received submissions on how the minimum premium, alone, made the purchase of insurance prohibitive for certain risks.

The Government could legislate that non-profit organizations are not subject to minimum premiums. This action would make insurance more available to the small organizations that find the minimum premiums charged by insurers to be unaffordable. However, insurers that are not able to collect the minimum premium that they require to cover their processing costs will likely decline to write the risk, leading to availability problems.

Recommendation 19

IMPACT: Affordability-Positive
Availability-Negative

The Board recommends that:

Government should not take any action to reduce or eliminate minimum premiums.

20. Recognition of Risk Management Programs

In the hard market, insurers required risk management programs in the commercial sector and many organizations implemented them. Non-profit organizations were particularly frustrated at having done so, meeting standards imposed on their operations by insurers, and seeing not a decrease in their premiums, but rather, an increase in their premiums. The presence of a risk management program may have tempered the premium increases that they received, and also may have been a factor in obtaining insurance, but this is not recognized by the organizations.

Insurance companies can encourage risk management programs by giving a discount to those organizations that have a formal risk management program. Although the existence of risk management programs is currently considered by insurance companies in underwriting and pricing, the public is not aware of the extent to which this is done, nor the impact. This would have the additional benefit of improving insurer/consumer relations and would encourage organizations to have such programs.

Recommendation 20

IMPACT: Affordability-Positive
Availability-Neutral/Positive

The Board Recommends that:

The insurance industry should offer premium discounts for implementing risk management programs and should educate the public on the benefits of risk management programs.

Recommendations - Special Interest Groups

21. Heritage Home Designation

The two issues that have been identified related to heritage homes are the lack of understanding by both consumers and the industry regarding repairs to a damaged heritage home, and reluctance of insurers to insure older homes because: the market value of the properties are often less than replacement value; partial losses on older homes are very costly to repair; roofs, electrical systems, and foundations of homes wear out; aluminum wiring is a known problem; and cast iron pipes deteriorate.

Because of the recent public attention given to situations where owners of heritage homes were unable to obtain insurance, the Board, in its written questions to the insurers asked specifically about the impact of the legislation on underwriting practices for heritage homes. Some reported that they do not have a good understanding of the Act; that is, that the heritage reconstruction required in a loss situation applies only to the façade of the building. Others, however, had a good understanding of the Act, but cited bureaucratic red tape, delays, and higher replacement costs as reasons for underwriting concerns for heritage buildings.

The Provincial Heritage Properties Association surveyed its membership and found that neither access nor affordability was an issue, so long as the broker had a full understanding of the legislation.

The Provincial Heritage Property Association representatives recommend that the industry become better educated in assessing the risks of heritage homes. They plan to produce a brochure to educate the public, brokers, and insurers.

The Board is of the view that affordability and availability of insurance are not major issues for owners of heritage homes.

Recommendation 21

IMPACT: Affordability-Neutral/Positive
Availability-Neutral/Positive

The Board recommends that:

Government support the actions of the Provincial Heritage Property Association in educating the insurance industry about the impact a heritage designation has on the insurability and cost of insurance of a home.

22. Volunteer Fire Departments

It is ironic that the volunteer fire departments are having such difficulty with their rising insurance costs. It is precisely these volunteers that enable the insurers to offer home insurance in rural areas at what remains a reasonable cost. While insurers have assured the Board that they will continue to offer insurance in those areas serviced by volunteer fire departments should volunteer fire departments cease to provide services, the Board questions at what cost and for how long?

The Board is concerned that the risk for volunteer fire departments is not accurately reflected in the underwriting performed by insurers. Under the *Municipal Government Act*[15], s.300 and s.301, a fire department that is registered with a municipality is only responsible for its gross negligence when carrying out emergency services. Hence, the liability risk posed by fire departments in carrying out their duties is quite limited. However, fundraising activities apparently are not protected by this legislation (although the *Volunteer Protection Act*[16] should come into play as regards individual volunteers - see below). And property insurance coverage would still be required by the fire departments as most volunteer fire departments own their own buildings and equipment.

The Board was initially of the opinion that a solution to the insurance problem faced by volunteer fire departments would be to incorporate volunteer fire departments into the municipality that they service; the result of which would be that the volunteer fire department's insurance needs would be covered under the umbrella of the municipality's insurance coverage.

However, the Board has subsequently learned that this is not a simple task and would have substantial cost repercussions on the municipality. Apparently, many municipalities do not have the expertise, trained personnel, etc. to manage these fire departments. Further, this "solution" would not address fundraising activities if these were to continue to be a fire department function. The fire department's property would also have to be transferred to the municipality, putting an additional burden on the municipality to maintain the property and equipment.

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[15] S.N.S. 1998, c.18

[16] supra fn 1

Recommendation 22

IMPACT: Affordability-Positive
Availability-Positive

The Board recommends that:

Government conduct further study to develop a viable solution to the insurance problem faced by volunteer fire departments.

23. Trail Associations/Recreation Trails

The Board received a number of presentations from trail associations as to the rising costs of their insurance. Those operating on Crown lands are required to carry insurance by their letter of authority from the Department of Natural Resources. The Department insists that each trail association carry $2 Million liability insurance. The Board questions this requirement. The *Occupiers' Liability Act*[17] limits the liability with respect to recreational trails. What is the purpose of this legislation if the Government itself is not willing to assume the risk of judicial interpretation? Further, trail associations that maintain trails for recreational use by the public are providing a service to their communities, one that saves Government considerable funds. Is it fair that they should also assume the liability risk for providing a public service? Reducing the need to carry liability insurance will help to address the availability and affordability issues for volunteer trail associations, which are providing a public service.

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[17] supra fn 3

Recommendation 23

IMPACT: Affordability-Positive
Availability-Neutral

The Board recommends that:

Government explore the removal of the stipulation in the letters of authority for use of crown lands that trails associations and other users carry liability insurance on provincially owned trails.

10

Concluding Comments

Nova Scotians have not been immune to what has been happening worldwide on the insurance front over the past several years. The following excerpt from an August 2004 Export Development Canada paper explains,

> "Business and consumers in many countries, have struggled to cope with steep premium rate increases of 25-50 per cent and beyond for property & casualty (P&C) insurance, and even more severe increases in sectors such as liability insurance." [1a]

The Board, while examining property and liability insurance issues in the Province heard various concerns by homeowners, volunteer organizations, small businesses and others. Just as the Board heard, an article on insurance in the July 26, 2004 issue of MacLean's Magazine [2a] suggests that the concerns of Nova Scotians regarding insurance, particularly for homeowners, were indicative of what was happening across Canada.

When it comes to matters of insurance events such as global investing, weather related disasters such as hurricanes in Florida, forest fires in British Columbia and ice storms in Quebec, acts of terrorism in North America and other continents, as well as large litigation cases elsewhere in Canada and the United States, all impact the world insurance industry. This includes our national market, and consequently Nova Scotia, which cannot be isolated from these conditions.

Of all these events, global investing is one over which the insurance industry chooses to participate in; they invest or choose not to invest depending on market conditions. In this context the Board learned that the insurance industry experiences soft markets and hard markets referred to as insurance cycles. The soft market occurs when investments are returning a large income and the hard market occurs when investment returns decline.

The available insurance information indicates Canada experiences similar insurance markets or cycles as the United States, although it is suggested not as pronounced. The Board is of the view that these national cycles significantly affect provincial markets.

These insurance cycles are intensified by the behavior of insurers as investors. During the good times, that is, during periods of high interest rates or very high returns on equities, insurers cut policy premiums below what is actuarially justified. Coverage is under-priced, and insurers invest the increased funds from a larger market share. In this environment insurers take on higher risk clients in order to gain more funds for investment. This latest soft market came to an abrupt halt in late 2000 and was further affected by the terrorist attacks of September 11, 2001.

After the economic events of this period (September 2000 – December 2001), insurers were sobered to find that underwriting losses were now out of control. Over the next few years, insurers, in many cases without appropriate notices or satisfactory explanations, began to dramatically increase premiums in an attempt to restore overall profitability. The increased premiums were combined with restrictions on coverage and withdrawal of coverage leading to availability problems as well.

It is the Board's view that the insurance industry did a poor job of consumer relations during the hard market that occurred after 2001. Because insurance companies had not explained what they were doing with customer's premiums during the soft market, and the benefits the consumer received at that time, the industry was seen as very unfair in their subsequent practices as they attempted to restore profitability.

Of homeowners, tenants, non-profits and small businesses, based upon the presentations made to the Board, the Board believes that the non-profit sector has suffered the most, and this is discussed throughout the report. Many of these groups involve children's services, for which, as a result of sexual abuse claims, affordable insurance has become difficult to obtain. For a number of volunteer groups with fund-raising activities involving the serving of liquor (as well as for the hospitality industry and of course, insurers) liquor liability has become a serious issue. And, in the recreation sector, there appears to be a lack of appropriate assessment of risk.

The Board heard from many in the small business and non-profit sectors that their insurance premiums were skyrocketing and risk coverage was being restricted despite few or no claims having been filed. This is in part due to the very small impact the Nova Scotia experience has on the establishment of rates. Claims and events outside the Province have a much more significant effect on commercial insurance than the Nova Scotia experience. Many Nova Scotians want a better understanding of this situation and why it is so.

The insurance industry has been remiss in its communications efforts with the public, leading to confusion and frustration on the part of the consumer. The industry referred to consumer attitude and a growing propensity to litigate, as well as the use of insurance as a "home maintenance" program. The Board recognizes that insurance is designed to cover unexpected losses of some magnitude and it should not be used as a "maintenance" fund. The Board anticipates that consumers today, having been through such a hard insurance market, will be more inclined to use insurance only for larger claims.

The Board believes that property and liability insurance has grown in importance to homeowners and organizations of all types. Mortgages for home and business ownership require property insurance; businesses need insurance for financing and participating in various partnerships including those with Government; and non-profits need insurance for protection of assets and volunteers, and in many cases Government funding of non-profits calls for various insurance coverages. Property and liability insurance is as essential as automobile insurance.

The insurance industry, consumer groups and Government have a role to play in ensuring that insurers provide affordable, accessible and effective insurance programs that are respected by the consumers and in which consumers have confidence. The Board hopes this report, its findings, and recommendations will assist with improvements to this objective for Nova Scotians, and will help consumers to have a better understanding of the factors affecting both affordability and availability of insurance in Nova Scotia.

Appendices

11

Appendix

Appendix-Exhibit 1 – Glossary of Insurance Terms

Availability; Affordability; Insurability

Availability of Insurance - The capacity and willingness of insurance companies to offer insurance coverage to consumers.

Affordability of Insurance - The financial ability, or willingness, of an individual or commercial entity to purchase desired or required insurance coverage that is otherwise available.

Insurability of a Risk - Broadly, a risk is insurable if an insurance company is willing to accept the risk for coverage

Catastrophes

Events such as Hurricane Juan, the terrorists' attacks on 9/11, and major snow and ice storms that cause significant amounts of damage.

Commercial Property Insurance; Commercial Liability Insurance

Commercial Property Insurance - Insurance designed for commercial enterprises (including non-profit organizations) and professionals. It provides financial protection against the loss of, or damage to, real and personal property caused by a variety of perils, such as fire, lightning, business interruption, loss of rent/income, glass breakage, windstorm, water damage, and explosion.

Commercial Liability Insurance - Insurance designed for commercial enterprises (including non-profit organizations) and professionals. It provides insurance coverage for the legal liability of the insured or insured's business resulting from damage to the property of others or personal injury to others.

General Agent

Brokers that specialize in the hard to insure risks. The general agent typically works with brokers and insurance companies to develop programs (coverage and premiums) for those markets that have difficulty in obtaining insurance. An example of such a market is the "liquor market," operations where bar revenue is greater than 20%-25% of total sales. General agents are also referred to as an intermediary or wholesaler.

Hard Market; Soft Market

Terms that describe periods of high insurance premiums and restrictive marketing (hard market), and periods of competitive prices and marketing (soft market). Refer to Section 6 for more information.

HITS

The Habitational Insurance Tracking System developed by the Insurers' Advisory Organization (IAO) that provides insurers with the complete claims history of an applicant or property.

Homeowners Insurance; Owners Policy; Tenants Policy

Homeowners Insurance - Insurance that combines real and personal property coverage with personal liability coverage, to owners of homes (referred to as owners insurance) and renters of apartments or homes (referred to as tenants insurance). The standard policy provides insurance against damage to the home and its contents (or in the case of tenants insurance, contents), as well as for the legal responsibility for any injuries or property damage caused by the insured or household members to other people or property. The losses for which insurance coverage is provided is broad (e.g., fire, theft, wind, vandalism, etc.), but some types of losses are not covered, such as damage caused by floods, earthquakes or poor maintenance.

Owners Policy - There are generally three types of owners policies: Standard, Broad, and Comprehensive. The Standard policy provides protection for damage to the building and contents for certain perils that are specifically named in the policy, e.g., fire, theft, wind, hail. The Broad form provides protection for damage to the building on an all-risk basis, subject to listed exclusions, and protection to contents on a named-peril basis. The Comprehensive form provides protection for damage to the building and contents on an all-risk basis, again subject to listed exclusions. All three forms provide basic liability coverage up to $1,000,000 per claim brought against the homeowner. The Comprehensive policy is the most widely sold type of homeowner policy.

Tenants Policy - Tenants policies provide contents coverage on a named-peril basis. Insurance companies also offer property and liability insurance policies tailored to condominium owners, mobile home owners, and owners of seasonal dwellings.

Investment Income

The investment earnings of an insurance company. An insurance company has two sources of investment income: (1) on its capital/surplus, and (2) on the premium it collects until such time the premium is needed to pay for claims or expenses.

Losses (Incurred Losses)

The amount of payments made or payments expected to be paid by insurance companies to indemnify insureds for claims they have filed. In this report, the two terms are used interchangeably. Also in this report, the term loss is defined to include the claim handling expenses of the insurance company.

Loss Control (Loss Mitigation)

Actions taken to reduce the magnitude (severity) of losses or the frequency (incidence) of losses. Loss control/mitigation involves identifying problems that might lead to losses before they occur and putting in place measures to reduce the chance or magnitude of losses.

Loss Ratio; Expense Ratio; Combined Ratio

Loss Ratio - Losses, including claim handling expenses, divided by earned premium. This is the common measure of insurance company profitability.

Expense Ratio - Operating expenses divided by earned or written premium.

Combined Ratio - Another common measure of profitability. It is the sum of the loss ratio plus the expense ratio (operating expenses divided by written premium).

Named-Peril; All-Risk Coverage

Named Peril Coverage - Property and liability coverage against perils (i.e., causes of loss) that are specifically identified, subject to any stated exclusions. A peril is a cause of loss, or the event insured against, such as wind, hail, flood, fire, lightening, or theft.

All-Risk Coverage - Property and liability coverage protection against all types of losses unless specifically excluded.

Operating Expenses

Insurance company expenses, other than claim handling expenses. Operating expenses are typically categorized as commissions; administrative and general; and premium taxes, licenses, and fees.

Premium; Written Premium; Earned Premium

Premium - The amount charged by an insurance company for an insurance policy that it sells to a customer.

Written Premium - The total amount of premium charged by an insurance company for all insurance policies it has sold. It is generally measured over a one-year period. For example, assume an insurance company sold only one homeowner policy in 2004, and the policy had a 12-month policy term, was sold on July 1, 2004, and had a premium of $1,000. Then the amount of written premium in 2004 for that insurer would be $1,000.

Earned Premium - The amount of written premium that is associated with the portion of the policy term that has expired. Using the same example as above, the amount of earned premium in 2004 for that insurer would be $500. This is because only half of the policy term had expired as of the end of the year.

Property Insurance; Liability Insurance

Property Insurance - Insurance that indemnifies the insured for damage to owned property. In the case of a homeowner or tenant, the insurance is referred to as personal property insurance. In the case of a commercial enterprise, the insurance is referred to as commercial property insurance.

Liability Insurance - Insurance that indemnifies or reimburses the insured for damages caused to a third party for which the insured may be held legally responsible.

Rate; Base Rate; Surcharges/Discounts; Rating Territory; Manual Rated Risks; Individually Rated Risks

Rate - The premium per unit of exposure. For example, the rate to insure a building may be $10 per 100 square feet. The premium paid by the owner of a 20,000 square foot building would be $2,000. In this report, the terms rate and premium are often used interchangeably.

Base Rate - The rate that serves as the starting point to calculating the premium to be charged.

Surcharges/Discounts - Increases or decreases that are applied in calculating the premium to be charged. Surcharges/discounts are applied to reflect additional or more restrictive coverage, or to reflect greater or reduced risk. For example, many companies offer a homeowners policy discount to newly constructed homes.

Rating Territory - Personal property insurance premiums typically vary by the location of the home/building. Rating territories differentiate how locations within the province are rated.

Manually Rated Risks - Risks whose insurance premium is determined from a look-up in a rate manual. Homeowners insurance policies are manual rated risks because the premium for any homeowner can be found in an insurance company rate manual or guide.

Individually Rated Risks - Risks whose insurance premium is determined based on a risk assessment performed by the insurance company, subject to certain guidelines. Commercial insurance policies, particularly those for larger enterprises, are typically individually risk rated.

Reinsurance

Insurance purchased by insurance companies from other insurance companies. There are several reasons why an insurance company would purchase reinsurance, but the reason most relevant to this study is for protection against catastrophic losses.

Replacement Cost Coverage; Actual Cash Value Coverage; Market Value Coverage

Replacement Cost Coverage (sometimes referred to as Guaranteed Replacement Coverage) - A form of insurance coverage that indemnifies an insured for damaged property by paying for the cost to replace the damaged property with like kind and quality material.

Actual Cash Value Coverage - A form of insurance coverage that indemnifies an insured for damaged property by paying for the cost to replace the damaged property with like kind and quality material less any depreciation that has occurred.

Market Value Coverage - A form of insurance coverage that indemnifies an insured for damaged property by paying for the market value of the damaged property, or the price the insured would have received if he had sold the property in an open market.

Reserves; Case or Claim Reserve; Actuarial Reserve (IBNR Reserve)

Case or Claim Reserve - The estimate of future payments that an insurance company will make on an open/pending claim that has been reported to the company. Case/claim reserves are established on a claim-by-claim basis (i.e., there is a case/claim reserve for each open/pending claim), and are typically set by the insurance company claim adjuster that is handling the claim.

Actuarial Reserve (IBNR Reserve) - The estimate of future payments that an insurance company will make on all claims that have occurred as of a certain date, regardless of whether or not the claims have been reported to the insurance company. The actuarial reserve is established on an aggregate-total claims basis (as opposed to a claim-by-claim basis), and provides for (a) any deficiencies that may exist in the total amount of case/claim reserves, and (b) claims that have occurred but have not yet been reported to the insurance company. The term IBNR stands for "incurred but not reported." The terms actuarial reserve and IBNR reserve are used interchangeably in this report.

Surplus (Capital)

The excess of the assets of an insurance company over its liabilities.

Underwriting Profit; Underwriting Profit Margin

Underwriting Profit - Earned premium, less incurred losses (including claim handling expenses), less operating expenses.

Underwriting Profit Margin - The provision that is included in the insurance premium for the insurance company's underwriting profit. (The profit margin is fully discussed in Section 6.)

Underwriting Rules

New Business Selection Rules - The criteria by which an insurance company decides to accept new risks to insure.

Termination Rules - The criteria by which an insurance company decides to no longer provide insurance coverage to an insured. There are two specific types of termination rules:

- Non-renewal Rules - the criteria by which an insurance company decides not to renew an insured's policy upon policy term expiration
- Cancellation Rules - the criteria by which an insurance company decides to cancel an insured's policy before the expiration of the policy period

Appendix-Exhibit 2 - Bibliography

This bibliography is not intended to be exhaustive, but it is intended to present what is believed to be a cross section of the views that have been expressed by academics, actuaries, special interest groups, consumers, and regulators on the various issues.

The referenced papers are available on request.

Availability/Affordability – General

1. **Courbage, Christiphe and Liedtke, Patrick M , "On Insurability, Its Limits and Extensions," Society for Risk Analysis, 2002, Annual Meeting**

Abstract

This is an academic paper on insurability. It defines insurability in a risk-transfer context. Claim frequency, claim severity, probable maximum loss, capacity, degree of uncertainty, expected loss, and loss variance are some of the risk related concepts discussed in the paper. The paper also briefly discusses the concept of "pooling" to increase insurance capacity and reduce risk.

1a. **Hodgson, Glen, and Brakel, Hendrik, "The Cycle for Insurance Premiums: Better Times Ahead?" EDC Economics, August 2004**

Abstract

This paper discusses the phenomenon of the insurance cycle in Canada and the United States, and presents the Canadian property & casualty insurance industry profitability results for the last decade.

2. **"Property and Casualty Insurance in Canada," Department of Finance Canada, October 2003**

Abstract

This report discusses the structure, profitability, and regulation of the insurance industry in Canada, and identifies key issues facing the insurance industry in Canada.

2a. **"Dear Policyholder…", MacLean's Magazine, July 26, 2004**

Abstract

The article sites numerous cases across Canada of homeowners concerns and problems with insurance coverages and premiums

Small Commercial Businesses - General

3. **Insurance Alert, prepared by the Canadian Federation of Independent Businesses**

Abstract

This article briefly discusses affordability and availability problems faced by small to medium sized businesses: examples of actual rate increases faced by businesses are provided, as well as a list of things businesses can do to help protect themselves from premium increases or coverage reductions.

4. **"Soaring Insurance Costs: Dealing With the Problem," Political Action Alert, prepared by the Canadian Federation of Independent Businesses**

Abstract

This article discusses the results of a survey taken by the CFIB of its members on insurance costs. The survey revealed that cost and access were the two main concerns: "seven out of ten business owners cited high cost as the main problem and half of respondents pointed to a lack of competitively-priced insurance plans for their businesses." Charts and graphs are included.

5. **"Tough Times for Main Street," Canadian Underwriter, March 2004**

Abstract

Premium hikes and availability issues have prompted the Canadian Federation of Independent Business to call for a federal review of the property & casualty insurance industry. But, insurers and brokers say solutions for small businesses should be market-driven, not political. They also contend that the market is working.

The article also mentions the following:

- The IBC has formed a "Market Availability Task Force" that is trying to address the problem at a regional level. Jane Voll, the chief economist for IBC, is involved with the task force.
- Royal & SunAlliance has a "Small Business Solutions" department that specializes in the retail, contracting, realty and business, and personal services business segments. Mike Jakeman, the VP of Commercial Insurance, is involved with this effort
- Aviva Canada has a small business solution called "Fastrax." It is a package policy that divides small to medium sized enterprises (SMEs) into

seven core clusters. Paul Fletcher, VP Marketing, is involved with this product.

6. **"Small Business' Tale of Woe Underscores Issue That Threatens Economy," Toronto Sun, July 20, 2003**

Abstract

The article presents examples of small business owners being hit with very large rate increases or being denied coverage even though they have been claim free.

7. **"Insurance Costs Hurt Small Firms: Once Recommended by Insurers, Company Can't Get Coverage," Halifax Daily News, September 24, 2003**

Abstract

Insurance price increases and lack of coverage are hitting many Nova Scotia small businesses, threatening their viability.

8. **"Increasing Costs, Decreasing Access," Canadian Federation of Independent Business, September 2003**

Abstract

This report discusses the problem of increased property and liability casualty insurance costs in Nova Scotia, and throughout Canada. The report says that the implication of increased insurance premiums to small businesses include "reduced profits, lost opportunities, price increases, and lay-offs."

The report offers the following recommendations:

- Instructing the Atlantic Harmonization Task Force to provide a context in its report on Auto Insurance by considering changes within P&C Insurance

- Ensuring there is small business representation on the Nova Scotia Insurance Review Board

- Including the collection of data on the P&C insurance industry in the 'information campaign' outlined in the auto insurance solution as a means of education consumers and holding the industry to account

- Immediately moving the insurance premiums tax out of general revenue and earmarking it for the collection of information on insurance for consumers – commercial and otherwise – as a first-step towards examining the insurance premiums tax to determine its impact on the ability of insurers to provide fair and reasonable rates

- Working with insurance firms to determine suitable disclosure requirements to all consumers

- Striking a multi-party task force to work with industry and stakeholders, including small business, and the Nova Scotia Insurance Review Board to:

    - examine the P&C insurance issue, utilizing information already gathered and reports authored as starting points (i.e., Utility and Review Board Report, Consumer Advocate's Report)

    - examine the regulatory framework within which the P&C industry currently operates to identify undue burdens

- Asking the federal government to examine what is going on in the P&C industry at a national level

Small Commercial Businesses – Air Shows

9. **“Sky-High Insurance Rates Could Ground Snowbirds: If the Air Shows Can't Pay for Them, Who Will?,” Halifax Daily News, April 28, 2002**

Abstract

Air shows are facing war and terrorism insurance premiums as much as 10 times what they had been paying.

Non-Profit Organizations – Churches

10. **“Soaring Insurance Rates Challenge Most Dioceses,” Canadian Business and Current Affairs, Anglican Church of Canada Anglican Journal, December 2003**

Abstract

Church insurance rates for liability and property coverage in Canada are skyrocketing. In Nova Scotia premiums are reported to have soared 250%, among the highest in the country, in part because of the fire that leveled the 247-year-old wooden St. John's Church last October. Churches that are made of masonry or stone have much less risk than those made of wood.

11. **“Scandals in the Church: The Money As Lawsuits Spread, Church Faces Questions on Finances,” The New York Times, June 13, 2002**

Abstract

Insurance companies have responded to the sexual abuse scandal that began in January 2002, by raising premiums, excluding coverage of sexual abuse by priests, and not paying claims where the acts were intentional.

Non-Profits-Events

11a. **"Organizing Events: Avoiding Risk and Promoting Safety," Halldor K. Bjarnason, Lynda J. Cannell, Western Legal Publications (1982) Limited, 1999, Vancouver, B.C.**

Abstract

This is a "how to" book for event planners such as non-profit organizations, community centres, sports and special interest groups and businesses addressing the safety requirements of a variety of events. It contains checklists, sample forms, and easy to understand discussions and examples of a myriad of issues that must be considered in the planning of any event. There is a discussion of insurance and the role it plays in risk management for the event organizer.

Small Commercial Businesses - Directors and Officers Liability

12. **Sinderman, Martin, "D&O Liability Insurance Market is in Turmoil,"**

Abstract

This article describes the availability and affordability issue as respects D&O insurance.

Small Commercial Businesses – Ice and Snow Removal

13. **"Ice and Snow Removal Contractors are in the Insurance Spotlight, as Growing Liability Exposures Force Property and Casualty Carriers to Pull Back Coverage," Canadian Underwriter, December 2002**

Abstract

The hard market hits all insurance customers – but not equally. Insurance companies have placed certain classes of business – welders, roofing contractors, logging truckers – under the microscope due to claims experience and volatility. And nowhere is this increased scrutiny more evident than for snow and ice removal contractors, especially with the long Canadian winter on the horizon. Several insurers have significantly cut back writing this line of business. The fundamentals of clearly worded contracts, loss prevention services and risk management programs may represent a last line of defense for a beleaguered snow removal industry at the mercy of massive insurance rate hikes, restrictive conditions and in some cases, no markets. Insurers fears range from the use of pesticides on lawns to slip and fall claims in icy parking lots. Three major areas of snow removal are affected: high density residential properties (condos and apartments), high traffic commercial properties (malls), and public highways and roads. CGU is one company that has cut back coverage; Allianz is another.

Small Commercial Businesses – Sports Arenas

14. **"Increase in Puck Lawsuits Points to Premium Hikes," Edmonton Sun, April 13, 2004**

Abstract

Liability premiums for Hockey Canada are expected to rise as more lawsuits are being filed for injuries suffered while playing hockey.

Small Commercial Businesses - Tourism, Recreation, Sports, Restaurants, and Volunteer Organizations

15. **Insurance: It's Everybody's Business," Prepared and Supported By: The Tourism Industry Association of Nova Scotia, Recreation Nova Scotia, Sport Nova Scotia, The Restaurant Association of Nova Scotia, and Canadian Volunteerism Initiative – Nova Scotia Network, Report Released: Fall 2003**

Abstract

Insurance availability and affordability is a major issue for small businesses in Nova Scotia. The construction, transportation, and retail sectors seem to have experienced the largest premium increases; significant increases have been experienced in commercial property, small business package policies, and commercial auto. The main problems are: high cost, insufficient notice of changes in rates/coverage, higher deductibles, and decreased coverage availability. And, according to the report, most small businesses that are getting large rate increases or restricted coverage have never submitted a claim.

Much of the report focuses on the insurance availability and affordability "crises" faced by the tourism sector, food services sector, recreation sector, and volunteer organizations.

TIANS has been actively trying to help its members, including the initiation of the "It's Good Business" program (good risk management practices).

Small Commercial Businesses – Volunteer Organizations

16. **"Volunteer Search Squad Sees Liability Insurance Quadruple," Canadian Press, August 2003**

Abstract

Liability insurance premiums may soon quadruple from $2,000 to $8,000 for Yarmouth County Ground Search and Rescue Team, despite never having a claim. (The coverage is for members while on a search.)

Also see #15.

Large Commercial Businesses – Construction

17. **"Insurance in Residential Construction: An Environmental Scan," The Canada Mortgage and Housing Corporation, January 2004**

Abstract

Over past three years, home builders have identified construction insurance as a critical problem area with reports of higher premiums and deductibles, reduced levels of coverage, new warranties and conditions attached to the policies, as well as refusals of coverage. The cost of insurance ultimately affects housing affordability and the profitability of the home builders' business.

In Canada, home builders acquire protection via various forms of insurance coverage, including:

- builder's risk insurance – for loss or damage to a building under construction caused by (typically) fire, extended coverage, vandalism, mischief

- wrap up general liability insurance – package coverage usually found in a large residential construction project which is applicable to all liability risks (e.g., all contractors working on a specific site)

- contractors' comprehensive general liability insurance – coverage for claims resulting in injury caused by negligence

- Warranties may be attached to the policies which are performance requirement of the insured as a condition of coverage

Survey Findings – premiums are increasing, decrease in availability, increase in warranties, increases in deductibles, need for better communication between construction industry and insurers, catastrophe losses affecting premiums, hard market may be softening.

18. **"Building Boom, Insurance Bust," Canadian Underwriter, August 2003**

Abstract

Insurance costs are hammering Canada's rapidly growing construction industry as rates go through the roof and capacity caves in. Builders are harder hit than many other commercial policyholders because underwriters are skittish about large-loss exposures. Many in the construction industry want rate relief and the return of stable markets.

19. **Report on "Asbestos Liability," Insurance Information Institute, April 2004**

Abstract

Asbestos claims are surging again. In 2003, more than 100,000 Americans will die as a result of asbestos and more than 100,000 claims were filed. For the past year Congress has been trying to find a legislative solution to the crisis.

Asbestos is a naturally occurring fibrous mineral with a crystalline structure containing long chains of silicon and oxygen; that is flexible, strong, durable, and resistant to heat and fire; used in industrial sites, homes, schools, commercial buildings; and causes lung cancer, with a latency period as long as 40 years.

One of the most marked changes in asbestos litigation has been a widening of the target companies…lawyers have begun going after companies less directly involved such as owners of companies that once produced asbestos. The liability concept is also broadening.

The paper makes reference to a paper, "On the Theory Class's Theories of Asbestosis, Disconnect Between Scholarship and Reality" and a report by the Institute for Civil Justice, "Asbestos Litigation Costs and Compensation." Reference is also made to several other papers and studies.

20. **"Asbestos: U.S. Insurance Industry Update," Fitch Ratings, November 19, 2003**

Abstract

During 2002, United States insurers significantly increased their reserves for asbestos liability claims in reaction to a surge in claim filings, a trend toward larger awards for mildly impaired claimants, and an attempt to expand coverage from product liability to general liability policies. The "Hatch Bill," which is currently being negotiated in Washington, DC, proposes to take asbestos litigation out of the tort litigation system through both the creation of a trust fund financed by contributions from defendants and insurers and the establishment of medical criteria guidelines for the payment of damages. The surge in claims is attributed to a focusing on peripheral defendants, increased awareness due to advertising and mass screening techniques by attorneys, the attempt to expand coverage to include general liability policies, and sizeable jury awards for mildly impaired claimants.

Commercial Businesses - Crime

21. **"The Economic and Social Costs of Crime," Home Office Research Study 217 (England), 2000**

Abstract

This study focuses on crime in England. Crime is categorized by type. Incidence of crime for 1999-2000 by type is measured. Economic and social costs of crime are measured and categorized. The categories of crime are: crimes against individuals and households, crimes against the commercial and public sector, fraud and forgery, drugs offences, traffic and motoring and other non-notifiable offences, and wider economic distortions.

22. **"The Cost of Crime in Nova Scotia," GPI Atlantic, 1999**

Abstract

This comprehensive study of the economic costs of crime in Nova Scotia found that in 1997 crime cost Nova Scotians about $550 million a year in economic losses to victims; public spending on police, courts and prisons; and private spending on burglar alarms, security guards, electronic surveillance, and theft insurance. This amounts to $600 per person or $1,650 per household in 1997. When losses due to unreported crimes, insurance fraud and shoplifting are added, as well as the costs of shattered lives due to crime, as estimated from court awards, the loss was nearly $1.2 billion a year, or $1,250 per person or $3,500 per household. These crime costs amount to 6.3% of the provincial GNP. Nova Scotia crime costs are lower than the Canadian average, but the comparative advantage is gradually eroding. Crime rates in Nova Scotia have climbed steadily since 1962, peaking in 1991, and falling by 16% since then. Nova Scotians have a one – ten chance of being a crime victim. The study also found that businesses build the cost of crime into their prices and that the average Nova Scotian household pays $800 more per year in higher prices to cover costs of security systems and guards, shoplifting and employee theft. In addition, insurance fraud costs each Nova Scotian household an extra $200 per year in higher premiums. The study also found that between 1971 and 1996 theft insurance premiums in Nova Scotia have jumped by 142%, while claims have gone up by only 72% in constant dollars. "Interestingly, insurance companies have also reported record profits - $1.6 billion in 1995 – as the gap between premiums and claims has widened dramatically." "Theft insurance premiums have continued to rise even while the property crime rate has been declining."

Residential Property – Credit Score

23. **"The Use of Credit History For Personal Lines of Insurance: Report to the National Association of Insurance Commissioners," American Academy of Actuaries, November, 2002**

Abstract

This report presents the actuarial issues surrounding the use of credit scoring in pricing and underwriting insurance.

24. **"Homeowners Face Tougher Insurance Policy Restrictions," Times Colonist, March 26, 2004**

Abstract

Because they do not want to insure unsafe homes, and as a result of losses in investment markets, costly court decisions, and disasters such as B.C.'s wildfires last summer and the 9/11 terrorism attack, insurers providing residential coverage are giving closer scrutiny to electrical systems, oil tanks, and roofs. Yet, Canada's insurance industry posted a record profit of $2.63 billion in 2003 according to IBC figures. Insurers want to insure homes with modern electrical systems equipped with breaker boxes and updated plumbing systems; they also want underground oil tanks, that potentially could leak, to be removed from the ground.

25. **"How to Solve the Homeowners Availability/Affordability Crisis," Independent Insurance Agents & Brokers of America, November 2003**

Abstract

The paper deals with the United States, but it is applicable to Nova Scotia. The paper notes that on average a homeowner files a claim every 8-9 years, and typically it is a small percentage of homeowners that accounts for a large percentage of the claims.

The paper offers several suggestions:

Homeowner policies are too broad – The paper states that most losses are caused by fire, lightning, windstorm/hail, water/freezing, or theft, and that it is the other perils that generate expenses that are disproportionate to the exposure. The paper suggests returning homeowner policies to a named-peril basis (instead of all-risk)

Deductibles are too small – The paper questions the logic of carrying a $250 deductible on a home valued at $100,000 or more. The paper suggests that homeowners should carry deductibles ranging from at least $1,000 to perhaps $2,500 to $5,000.

Loss Control is Virtually Nonexistent – The paper suggests that there is little incentive for insureds to practice sound loss prevention. The paper provides a "home loss prevention checklist" that deals with fire prevention, electrical, plumbing, bathrooms, other interior areas, exterior areas, crime exposures, and liability exposures. The paper also provides a list of home inspection & loss prevention web sites.

26. Untitled Paper that Discusses Homeowners Insurance in Massachusetts

Abstract

The papers says how the civil unrest experienced in the United States in the 1960's led to the establishment of the "Fair Access to Insurance Requirements Plans" along with federal riot reinsurance to insurers. States followed with the creation of FAIR plans, which, in Massachusetts is known as the Massachusetts Property Insurance Underwriting Association (MPIUA). The MPIUA offers personal and commercial property insurance coverage.

A concern over how insurers provided coverage in urban areas led to two changes in Massachusetts: (1) a brokerage system was designed to help insurers find potential customers that met their underwriting criteria, and (2) a cooperative effort between the Massachusetts Affordable Housing Alliance and several insurers was undertaken to encourage risk management training for insureds with discounted premiums as the immediate reward.

The MPIUA provides credits to insurers that write voluntary business in areas where the MPIUA has high market penetration.

The Massachusetts Insurance Commissioner collects, annually, detailed information about the homeowners insurance market, including premium and loss data by territory/zip code, form, cause of loss, and by insurer; information on cancellations/non renewals is also captured.

In 1997 the MPIUA developed a Market Assistance Plan to assist applicants in obtaining homeowners insurance in the voluntary market.

The paper also identifies new and emerging issues in homeowners insurance:

Acts of Terrorism – The United States passed the Terrorism Risk Insurance Act of 2002 that provides a federal back-stop for claims arising from some terrorism events and requires that coverage for certain terrorism events be offered to commercial policyholders. But is does not apply to homeowner policies.

Reinsurance Costs & Restrictions – It is expected that primary insurers will pass their higher reinsurance costs onto their policyholders.

Toxic Mould Property, Personal Injury, and Liability Losses Resulting from Water Damage – In June 2000 a Texas jury awarded an insured $33 million in their case against Farmers Insurance Co. The problem has been most severe in Florida, Texas and California, but has been increasing in other states as well. Massachusetts prohibits insurers from completely excluding coverage for toxic mould. Companies are required to provide basic amount of coverage for mould, and to offer higher limits of coverage.

The paper offers some recommendations:

- Make insurer underwriting guidelines available to the public.
- Make insurers give specific reasons (as opposed to simply saying, "underwriting standards") for declination of coverage, non renewal, or cancellation.
- Make insurers provide discounts to insureds who successfully complete a homeowners' risk management course conducted by MAHA.

27. **Puelz, Bob "An Examination of the Texas Homeowner's Insurance Market," SMU, 2002**

Abstract

This lengthy study discusses the homeowners insurance market in Texas, and how and why the market deteriorated over the period 2000-2001. The study also finds that increased regulation may worsen the situation.

Residential Property - Mould

28. **"Mould and the Insurance Industry," Insurance Information Institute**

Abstract

Damage from mould and mildew is specifically excluded in the standard homeowners policy (although mould contamination is covered if it is the result of a covered peril such as water damage from a burst pipe). Should the exclusion be eroded by the courts, the impact will be severe. Many insurers are inserting clarifying language to exclude the coverage, but offer it as an endorsement.

29. **"Presence of Mould Sparks Growing Concern in Canada," Windsor Star, March 1, 2003**

Abstract

With 10,000 mould-related lawsuits pending in the United States, the IBC is worried that it could spill into Canada. Elimination could mean anything from drying out and cleaning contaminated areas to replacing walls, ceilings and leaking roofs, to completely demolishing an interior. The causes of mould problems go beyond leaky roofs and plumbing-related situations; they can result from too much humidity, poor ventilation systems, wet construction materials, or poor construction/design. To date there have been no Canadian mould cases where any amount has been awarded for personal injury.

30. **"Mould Claims," Insurance Today, Winter 2002**

Abstract

This newsletter, prepared by the law firm, Patterson Palmer, briefly discusses the issue of mould claims as respects Canada.

31. **"New Guy Carpenter Report Sees Toxic Mould and Mildew as Growing Concern for Insurance Industry," Business Wire, January 7, 2002**

Abstract

This article summarizes a presentation made by Guy Carpenter at a recent company sponsored seminar.

Residential Property – Oil Tanks

32. **"Older Tanks May Need Replacing," Toronto Star, April 17, 2003**

Abstract

Because thousands of oil spills occur in Canada every year, insurers have been increasingly reluctant to provide coverage to homes unless tanks pass an inspection. As a result, insurers in Ontario have imposed a tougher standard beginning in 2001 that require homeowners with oil heat to have a basic inspection of their heating system by May 2004 and a comprehensive inspection by a certified oil burner technician by May 2007. The provincial regulations were implemented following a three-year consultation with the oil burning industry and the Technical Standards and Safety Authority (TSSA), a non-profit regulatory body that administers and enforces public safety in several sectors including the oil burning industry. The regulations include a phased-in, multi-year program to upgrade or remove buried oil tanks. The cost of installing a new tank and removing the old tank is over $1,200.

33. **"Oil Heating Burned: Insurance Companies Threatening to Deny Home Coverage if Aging Tanks Aren't Replaced," The Toronto Sun, November 24, 2002**

Abstract

There are 275,000 homes in Ontario with heating oil tanks. According to the insurance industry, claims from residential oil tanks and ruptures have been increasing by more than 50% a year in the past few years in Atlantic Canada. Between 1996 and 1998, total dollars paid out in claims from residential oil tank leaks and spills in the Atlantic region exceeded $11.9 million, ranking as the sixth highest type of loss after fire, wind, water damage, burglary, and liability.

34. **"Avoid Oil-Tank Spills at Home This Winter," Insurance Canada**

Abstract

The article reminds homeowners to check the condition of their oil tanks and to take measures to avoid spills. A new polymer-based coating for new domestic oil tanks is expected to be in use by late 2002. In 2001 Prince Edward Island became the first province to institute regulations concerning domestic oil tank installations.

34a. **"Domestic Oil Tank Management Program Working Group Report and Recommendation", Submitted to the Nova Scotia Department of Environment and Labour**

Abstract

The document is the result of a joint working group of industry and government mandated to provide recommendations to the Nova Scotia government on preventing oil spills from domestic oil tanks. The recommendations address domestic oil tank management, tank standard, installation, registration, maintenance and compliance.

Residential Property - Older Homes

35. **"Owners of Older Nova Scotia Homes Worried About Reluctant Insurers," Canadian Press, July 2003**

Abstract

Insurers concerned that having to replace/replicate damaged property in so-called Heritage Homes, is too costly, and are restricting their insuring of such homes.

Residential Property - Wood Stoves

36. **"Talking about the Weather," Eastern Shore Magazine**

Abstract

This article discusses the extent to which wood burning stoves are used in Nova Scotia and other provinces.

37. **"Precautions for Heating with Wood," Insurance Bureau of Canada**

Abstract

This report discusses what owners of homes heated by a wood stove should do as respects insurance.

38. **"Introduction to Home Heating," EnerInfor Advisor, Nova Scotia Department of Natural Resources, October 2000**

Abstract

This paper is a primer to wood burning stoves.

Appendix-Exhibit 3 - Nova Scotia Property Manuals

Review of Rating Programs

The study consultant reviewed the personal property rate manuals of five large insurers operating in Nova Scotia. A summary of their rating practices follows.

Insurance policies are offered for four principal types of dwelling risks:

- homes (homeowner policy)
- apartments (tenants policy)
- condominiums (condominium policy)
- Seasonal/vacation homes

Insurance policies are also offered for other types of risks, such as: rented dwellings, vacant dwellings, watercraft, and for specifically scheduled personal articles such as furs and art.

In general, the rates for personal property insurance for dwellings are based on the following criteria:

- Dwelling Type - e.g., house, apartment, condominium, seasonal/vacation property, mobile home
- Fire Protection and Territory – the degree of fire protection, and where the dwelling is located
- Amount of insurance on the building and/or contents
- Type of Coverage - standard, broad, or comprehensive

- Eligibility for preferred programs & rates - generally based on the property's age; age and condition of heating, electrical, and plumbing systems, and roof; history of claims; and value.

- Eligibility for discounts and surcharges

Dwelling Type

There are separate schedules of rates for homeowner policies, tenant policies, condominium policies, seasonal/vacation properties, and, for those that offer such policies, for "mini" homes (i.e., factory built houses), and for mobile homes.

Homeowner policy rates vary by number of families. Tenant policy rates vary by criteria such as number of suites in the building, whether or not the walls are fire resistive, and whether or not the apartment is located within a commercial building. Condominium policies rates vary depending upon whether the style of the condominium is townhouse or apartment style; and whether the construction is fire resistive.

Fire Protection and Territory

Personal property rates vary depending upon the degree of fire protection. Risks are categorized into one of three fire protection classifications: *hydrant* protected (i.e., within 1,000 feet of a hydrant), *firehall* protected (i.e., within 5-8 miles of a firehall station), or *unprotected* (i.e., more than 5-8 miles from a responding firehall station).

Within each of these three major groups, particularly for hydrant protected risks, the insurers typically subdivide risks into rating territories, which may be based on either the postal code of the risk or the specific town or city in which the risk is located. In no case were the unprotected areas subdivided by rating territory.

The number of territories varies among the insurers, from a low of 4 territories to a high of 12.

Amount of Insurance

Rates also vary depending upon the amount of insurance coverage that is purchased. While premiums increase as the amount of insurance increases, the rate per $100 of coverage is highest for the lowest and highest amounts of insurance.

Insurers typically require that dwellings be insured in an amount equal to 100% of their replacement value. Replacement value is determined based on a valuation calculator used by the insurer. The amount of insurance typically automatically increases each year based on building cost inflation, which is measured in a manner determined by the insurer.

The amount of insurance selected on the dwelling is the basis for the amounts of insurance for other coverages that are provided: the insured's property located in the building (contents), the value of outside structures (e.g., detached garages), and additional living expenses that are incurred in the event the dwelling is damaged. Additional amounts of insurance can be purchased. In some cases the amount of insurance for these additional coverages is a blanket amount that is frequently equal to twice the amount of coverage on the dwelling.

Type of Coverage - Standard, Broad, or Comprehensive

There are two basic types of personal property coverage: "named-peril" basis and "all-risk." Named peril coverage provides coverage against losses caused by the perils specifically listed in the policy. All-risk coverage provides coverage against all types of loss, except for those that are specifically excluded in the policy.

The Standard Form policy provides named-peril coverage for both the building and the contents. The Broad Form policy provides named-peril coverage on the contents and all-risk overage on the building. The Comprehensive Form policy provides all-risk coverage on both the building and contents. Some insurers offer all three types of coverage, while others only offer the Broad and Comprehensive forms.

While the core policy language is similar from insurer to insurer (based on policy language developed by IBC), each insurer has its own customized variations. Typically, there are differences in the amount of coverage offered for property such as jewelry, furs, and property located away from the premises; and coverage exclusions or restrictions may vary from company to company. Unlike automobile insurance, where the policy wording is legislated, personal property insurance policy language is not standard.

Tenant policies are typically offered on either a named-peril or all-risk basis for contents. Some insurers offer condominium policies on both a named-peril and all-risk basis, while some offer coverage on an all-risk basis only.

The type of coverage offered for vacation or seasonal properties varies from very broad coverage (similar to homeowner policies) for the higher quality properties that are often used year round, to more limited coverage for summer cottages. Some insurers offer the limited coverage for summer cottages with the option of including or excluding the peril of burglary.

Eligibility for Preferred Programs and Rates

Risk must meet certain general eligibility criteria to be acceptable to the insurer.
General eligibility criteria include such elements as:

- General quality and maintenance of the dwelling
- Attached, detached, or row housing
- Age of dwelling; typically less than 25 years is suggested unless electrical, heating, plumbing systems and roofing have been updated
- Number of families: a surcharge for over 2 families is common
- Approved heating system
- Claims history: preferred programs often must be claims free in last 3 years
- Insured to full replacement value

Some insurers list the risks that they will not insure. Some examples include:

- More than 25 years old without updating
- Vacant properties
- Building with more than 4 rental units
- Risks with known or questionable moral hazards
- Non-standard heating as the main source of heat
- Risk with underground oil tanks
- Outbuildings not structurally sound
- Log construction
- Built before 1900

Some insurers list the risks that must be referred before the broker can bind or offer coverage. Some examples include:

- Losses in the last 5 years
- Risks with knob & tube wiring, galvanized steel plumbing, 60 amp service
- Century/heritage homes residence in unprotected areas
- Risks without previous coverage or gaps in coverage

Insurers frequently offer preferred rating programs for homes that meet certain eligibility criteria, such as newer homes insured for at least some minimum amount of insurance, that are hydrant protected, for a single family, and without any claims in the last 3 or more years.

Eligibility for Discount and Surcharges

All insurers offer a variety of discounts, each with specific eligibility criteria. Some examples of the types of discounts offered by insurers include:

- Home Security (5%-10%)
- Mature Applicants (5%-10%)
- New Home (from 1% to 15%; generally decreasing as the home ages)
- Claims Free (5%-15%)
- Mortgage Free (5%-15%)
- Other Insurance with the Company (5%-10%)
- Non-smoker (5%)
- Electric or preferred heating (5%)
- Inside Oil tank (5%)
- Long–term client (5%)
- Living in Same Residence for a Certain Number of Years (10%)
- Quality Older Home (5%)
- Sprinkler System (5%)

Most insurers limit the cumulative discount to 35%-40%.

Inadequate heating system is the most typical surcharge applied by insurers. Some insurers have large surcharges for those risks that do not meet their definition of an approved heating system, while other insurers instead choose to not insure such risks.

Most insurers do not insure risks with underground oil tanks, and often have age and steel grade criteria for risks that are above ground to be acceptable. Wood stoves must meet specified safety standards, and risks with woodstoves are frequently surcharged.

Rate Levels

As insurers differentiate themselves based on the coverage provided, eligibility criteria for programs, and by the discounts they offer, it is difficult for an insured to compare and evaluate cost and coverage among insurers. As an example, while an insured may wish to purchase a "Comprehensive" policy, one insurer's Comprehensive policy may provide coverage for lock replacement up to $1,000, while another insurer's Comprehensive policy limits lock replacement to $2,500.

Another difficulty for insureds in comparing rates are the definitions of fire protection and rating territory. Definitions vary from company to company. For example, some insurers define firehall protection being within 5 miles (8km) of a firehall, while others define it as being within 8 miles (13 km) from a responding firehall station. Hence, the rates for a homeowner who is located 6 miles from a firehall may vary significantly from insurer to insurer.

As an example of the varying rate levels among insurers, the premium (before any discounts) for a house in Truro that is insured for $200,000, with Comprehensive coverage, on the building and contents, is hydrant protected, and is eligible for the preferred rating program, varies from $846 to $1,102.

Appendix-Exhibit 4 - Notice of Public Hearing

NOVA SCOTIA
Insurance Review Board

Public Hearings on Insurance Issues

The Nova Scotia Insurance Review Board will conduct studies into two insurance issues of interest to the people of Nova Scotia. The Insurance Review Board will examine:

1. The rates and availability of fire, other property, casualty and liability insurance for homeowners, tenants, non-profit organizations and small businesses.

For the purpose of this Property Study, the Board has limited the definition of small business to companies and organizations of less than twenty employees and gross income of less than one and a half million dollars annually. In addition, for the purposes of this study, the Board will be examining professional liability and directors' and officers' insurance only in regards to non-profit organizations.

2. The use of 'Gender' as a risk classification factor in determining automobile insurance rates.

The Gender Study will examine how gender affects the availability and price of automobile insurance. It will identify the impact and implications of retaining or discontinuing the use of gender as a rating factor in automobile insurance. It should be noted that effective November 1, 2004, 'age' and 'marital' status will be eliminated as rating factors.

The Insurance Review Board would like to hear from Nova Scotians on these two issues. Individuals, non-profit organizations, small business owners, insurance industry representatives, and any other interested parties are invited to submit their comments, suggestions and recommendations to the Insurance Review Board in any one of the following ways:

- by mailing/faxing your written submission to the Insurance Review Board office (see the address below)
- by emailing your submission to the Insurance Review Board at nsirb@gov.ns.ca
- by presenting your written or verbal comments to the Insurance Review Board at one of the public hearings scheduled in your area (see attached schedule)

Written submissions should include the name, address, phone number, fax and email address of the party making the submission

Mail: Nova Scotia Insurance Review Board
5151 Terminal Road, 7th floor
P.O. Box 697
Halifax, NS B3J 2T8
phone: (902) 424-8685
fax: (902) 428-5781
email: **nsirb@gov.ns.ca**
website: **http://www.gov.ns.ca/nsirb**

Please check the schedule for the hearing location nearest you and make your plans to attend. If you would like to make a presentation to the Insurance Review Board, please call (902) 424-8685, email nsirb@gov.ns.ca, or write to the address on the previous page to schedule a time slot for the hearing in your area.

Pre-registration is encouraged, however, registration will also take place at the beginning of each hearing session on a first-come, first-served basis.

Location	Date	Times	Address
Port Hawkesbury	Thursday, May 13	1–4 pm & 6–8 pm	Maritime Inn, 717 Reeves Street
Sydney	Friday, May 14	11 am–1 pm & 2–5 pm	Civic Centre, 320 Esplande Street
New Glasgow	Wednesday, May 19	1–4 pm & 6–8 pm	Council Chambers, 111 Provost Street
Amherst	Thursday, May 20	1–4 pm & 6–8 pm	Town Council, 5 Ratchford Street
Liverpool	Wednesday, May 26	1–4 pm & 6–8 pm	White Point Beach Resort
Yarmouth	Thursday, May 27	1–4 pm & 6–8 pm	Town Hall, 400 Main Street
Middleton	Friday, May 28	11 am–1 pm & 2–5 pm	Town Hall, 131 Commercial Street
Truro	Monday, May 31	1–4 pm & 6–8 pm	Howard Johnson Hotel, 437 Prince Street
Halifax	Tuesday, June 1	10 am–12 pm, 1–4 & 6–8 pm	Four Points Sheraton, *(public is advised to use Maritime Centre entrance at 1505 Barrington Street)*
Halifax	Wednesday, June 2	10 am–12 pm & 2–5 pm	Four Points Sheraton, *(same as above)*

Here is your chance to tell us what you think and help identify solutions on these two insurance issues!

Appendix-Exhibit 5 - List of Public Presenters

Port Hawkesbury (May 13, 2004)

5 Private Citizens
John Munro - A. A. Milne Insurance
Ted Marten - Royal Canadian Legion, representing 10 Legions

Sydney (May 14, 2004)

2 Private Citizens
Elias Jaballe – Cape Breton Investment Property Owners' Association
George Muise – Cape Breton Regional Municipality Fire & Building Services, representing 34 Volunteer Fire Departments
Evan Scott – Cape Breton Council of Senior Citizens
John Morrison - Small businessman
Charlie MacIntyre – Cape Breton Council Retirees' Association
Wesley Stubbert - Chair, Florence Community Council
Irvan Warner - Investment Property Owners' Association

New Glasgow (May 19, 2004)

7 Private Citizens
Steven Goodwin - Reporter for Pictou Advocate
Neil Bystervildt-Westside Community Centre

Amherst (May 20, 2004)

6 Private Citizens
Sonya Power – Nova Scotia Advisory Council on the Status of Women, member

Liverpool (May 26, 2004)

1 Private Citizen
Laura Barkhouse –Municipality of the District of Lunenburg, representing 8 non-profit volunteer trail associations
Dawn Pazant - North Queens Community Health Centre
Monica Gosbee –King's Street Centre Community Action Program for Children
Dave MacLean - Chairman of Nova Scotia Credit Union Central
Bernie O'Neil - President & CEO of Nova Scotia Credit Union Central
Peter Waterman-Councillor Region of North Queens, District 9

Yarmouth (May 27, 2004)

3 Private Citizens
Bob Garron –Zone 12 Commander, Royal Canadian Legion, Representing 9 Branches and 1300 members
Frank Grant - Municipality of Argyle, Recreational Director
John Mowry - A&B Marine
Abigail Belliveau, Marsha Amiro, Tanya Adams - East Pubnico Playground Committee
Kendrick D'Entremont and Anne Hazlett - Southwest Paddlers Association
Nelson Burbidge - D'Eon Fisheries Ltd.
Owen Hanlin-Chair, Privateer Days in Liverpool

Middleton (May 28)

4 Private Citizens
Elaine Garnett - Balcom Insurance Ltd.
Gerry Gladwin - Whynot Boats, small Wooden Boats Association-member
Ron Seney - Fact Finders/CCANS
Anne Crossman - Melanson Family Reunion Society
John Johnson - Caleb House
Mary Lou Bernette - Family Resource Centre, West Hants
Bob Mann-Volunteer, Neighbourhood Watch
Mike Trinacty - Office of Health Promotion
Peter Terauds- Warden, Annapolis County

Truro (May 31, 2004)

5 Private Citizens

Stephanie Simonsen - Regional Director, Boys & Girls of Nova Scotia, representing 8 Clubs

Leo Boudreau - Royal Canadian Legion, Truro

Linda Atkinson –Sports and Recreation, Office of Health Promotion

Jens Jensen –President, Provincial Heritage Property Owners Association of NS

Linda Lelievre - Deafness Association of Nova Scotia

Farida Gabbini-Sport and Recreation, Office of Health Promotion, representing 60 sport and 40 recreation associations

Halifax (June 1, 2004)

6 Private Citizens

Jamie Ferguson - CEO of Sport Nova Scotia

Graham Steele - MLA

Anne Forbes - VON

Halifax (June 2, 2004)

1 Private Citizen

Rex MacLean - Executive Director, Investment Property Owners' Association

Peter Fredericks - President of IBANS

Beth Mason - Nova Scotia Network of Canada Volunteerism Initiative, representing 350 member organizations

Dawn Stegen - Recreation Nova Scotia, representing 630 member organizations

Terry Norman - Nova Scotia Trails Federation and Canadian Trails Federation, representing 50 community trail groups

Jamie Wolverton - General Manager, Snowmobilers' Association of Nova Scotia, representing 21 Clubs and 1500 households

Sue Wolstenholme-YWCA

Appendix-Exhibit 6 - List of Public Providing Written Submissions

March 30, 2004 - Private Citizen
May 10, 2004 - Private Citizen
May 11, 2004 - Private Citizen
May 13, 2004 - Recreation Nova Scotia (Report "Insurance: It's Everybody's Business")
May 14, 2004 - Private Citizen
May 18, 2004 - Private Citizen
May 19, 2004 - East Isle Construction Limited
May 19, 2004 - Private Citizen
May 24, 2004 - Private Citizen
May 25, 2004 - Private Citizen
May 25, 2004 - Saint Leonard's Society of Nova Scotia
May 27, 2004 - Insurance Bureau of Canada (Standing Committee on Veterans Affairs)
May 27, 2004 - Lake Vaughan Volunteer Fire Department
May 27, 2004 - Nova Scotia Canada Volunteerism Initiative Network
May 27, 2004 - Private Citizen
May 28, 2004 - Municipality of the District of Lunenburg
May 28, 2004 - VON Greater Halifax (Report on Dial-a-Ride Program)
May 31, 2004 - Boys and Girls Clubs of Nova Scotia
May 31, 2004 - Dept. of Community Services
May 31, 2004 - Family Resource Centre of West Hants
May 31, 2004 - Private Citizen
May 31, 2004 - Provincial Heritage Property Owners Association of Nova Scotia
June 1, 2004 - Graham Steele - Legal opinion re *Volunteer Protection Act*
June 1, 2004 - Hubbards/Tantallon Cap Society
June 1, 2004 - Sport Nova Scotia
June 2, 2004 - Canadian Federation of Independent Business
June 2, 2004 - Leader of the Opposition

June 2, 2004 - Minas waves New Horizons Senior Citizen Club
June 2, 2004 - The Co-operators Group Limited
June 2, 2004 - YWCA Halifax

June 3, 2004 - East Pubnico Playground Committee
June 4, 2004 - Lunenburg Queens Regional Development Agency (Report on Liability Insurance)
June 6, 2004 - Municipality of the District of Chester
June 7, 2004 - Maitland & District Development Association
June 7, 2004 - Town of Lunenburg
June 8, 2004 - Municipality of the District of Lunenburg
June 9, 2004 - Private Citizen
June 10, 2004 - Insurance Bureau of Canada
June 15, 2004 - Chester Area Middle School
June 17, 2004 - Tourism Industry Association of Nova Scotia
June 18, 2004 - Deafness Advocacy Association
June 21, 1004 - Private Citizen
June 21, 2004 - Private Citizen
June 22, 2004 - Community Action Program for Children Action Committee
June 22, 2004 - Private Citizen
June 22, 2004 - Private Citizen
June 23, 2004 - Private Citizen
June 24, 2004 - Nova Scotia Chambers of Commerce
June 25, 2004 - Lunenburg Queens Regional Development Agency (Report on Liability Insurance)
June 30, 2004 - Canadian Association of Direct Response Insurers
July 6, 2004 - South Shore Family Resource Association
July 13, 2004 - Nova Scotia Advisory Council on the Status of Women
July 21, 2004 - Family Resource Centre of West Hants

Appendix-Exhibit 6a - Organizations Interviewed by Telephone

Sport Nova Scotia
Canadian Federation of Independent Business
Downtown Halifax Business Commission
Spring Garden Area Business Association
Nova Scotia Chamber of Commerce
Nova Scotia Sport and Recreation Commission
Child Care Connections
Royal Canadian Legion
United Way

Appendix-Exhibit 7 - Insurance Company Questionnaire

Nova Scotia Insurance Review Board

PROPERTY STUDY
Questions for Insurers

Some questions may not be applicable to your company because of the type of business you write or the markets you serve. In such cases, please answer "Not Applicable."

Note: In this document, references to commercial property or commercial liability relate to "small businesses," which are defined to mean companies and organizations of less than 20 employees and annual gross income of less than $1.5 million.

Premium and Loss Experience

Please provide your company data for Nova Scotia, or if the data is not available or statistically credible, provide your company data for the Atlantic Canada Region.

Type of Data

Written Premium
Earned Premium
Reported Incurred Losses (including allocated loss adjustment expenses)
Incurred Losses (including allocated loss adjustment expenses) including a provision for development (i.e., IBNR)
Number of Policies Written
Number of Claims

This data should be provided for each of the years 1999, 2000, 2001, 2002, and 2003; for the following categories of coverage/risk in Nova Scotia. The loss information should be on a calendar year basis. Calendar/accident year loss information may be provided, but it should be so indicated.

Categories of Coverage/Risk

1. personal property – heritage homes
2. personal property – homeowners – dwellings (other than heritage homes) over 100 years old
3. personal property – homeowners – other – Glace Bay, New Waterford, and Dominion
4. personal property – homeowners – other – other rural areas
5. personal property – homeowners – other – urban areas

6. personal property – mobile or mini homes
7. personal property – other
8. personal property - watercraft

9. commercial property – legions – wet
10. commercial property – legions – dry
11. commercial property – churches
12. commercial property – volunteer fire departments
13. commercial property – festivals & events
14. commercial property – other volunteer organizations
15. commercial property – sports & recreation groups (incl. Trail associations)
16. commercial property – youth related groups (e.g., boys & girls clubs, YWCA, day cares, teen health counseling , scouting)
17. commercial property – other non-profit organizations
18. commercial property – boating (including kayaking and canoeing)
19. commercial property – other small businesses

20. commercial liability and D&O – legions – wet
21. commercial liability and D&O – legions - dry
22. commercial liability and D&O – churches
23. commercial liability and D&O – volunteer organizations
24. commercial liability and D&O – volunteer fire departments
25. commercial liability and D&O – festivals & events
26. commercial liability and D&O – sports & recreation groups (incl. Trail associations)
27. commercial liability and D&O – youth related groups (e.g., boys & girls clubs, YWCA, day cares, teen health counseling, scouting)
28. commercial liability and D&O – other non-profit organizations
29. commercial liability and D&O – boating (including kayaking and canoeing)
30. commercial liability and D&O – other small businesses

31. personal property – homeowners – wood stoves primary heating system
32. personal property – homeowners – coal – inside premises - primary heating system
33. personal property – homeowners – coal – outside premises - primary heating system
34. personal property – homeowners – oil – inside premises - primary heating system
35. personal property – homeowners – oil – outside premises - primary heating system

36. personal property – homeowners – oil – fiberglass tanks - primary heating system

37. personal property – other – wood stoves primary heating system
38. personal property – homeowners – coal – inside premises - primary heating system
39. personal property – homeowners – coal – outside premises - primary heating system
40. personal property – other – oil – inside premises - primary heating system
41. personal property – other – oil – outside premises - primary heating system

Non-Renewal Information

What percent of your policies in Nova Scotia did you non-renew in each of 1999, 2000, 2001, 2002, and 2003? What was you non-renewal percentage in these years for each of the following types of coverage/risks?

1. personal property – heritage homes
2. personal property – homeowners – dwellings (other than heritage homes) over 100 years old
3. personal property – homeowners – other – Glace Bay, New Waterford, and Dominion
4. personal property – homeowners – other – other rural areas
5. personal property – homeowners – other – urban areas

6. personal property – mobile or mini homes
7. personal property – other
8. personal property - watercraft

9. commercial property – legions – wet
10. commercial property – legions – dry
11. commercial property – churches
12. commercial property – volunteer fire departments
13. commercial property – festivals & events
14. commercial property – other volunteer organizations
15. commercial property – sports & recreation groups (incl. Trail associations)
16. commercial property – youth related groups (e.g., boys & girls clubs, YWCA, day cares, teen health counseling , scouting)
17. commercial property – other non-profit organizations
18. commercial property – boating (including kayaking and canoeing)
19. commercial property – other small businesses

20. commercial liability and D&O – legions – wet
21. commercial liability and D&O – legions - dry
22. commercial liability and D&O – churches
23. commercial liability and D&O – volunteer organizations
24. commercial liability and D&O – volunteer fire departments
25. commercial liability and D&O – festivals & events

26. commercial liability and D&O – sports & recreation groups (incl. Trail associations)
27. commercial liability and D&O – youth related groups (e.g., boys & girls clubs, YWCA, day cares, teen health counseling, scouting)
28. commercial liability and D&O – other non-profit organizations
29. commercial liability and D&O – boating (including kayaking and canoeing)
30. commercial liability and D&O – other small businesses

31. personal property – homeowners – wood stoves primary heating system
32. personal property – homeowners – coal – inside premises - primary heating system
33. personal property – homeowners – coal – outside premises - primary heating system
34. personal property – homeowners – oil – inside premises - primary heating system
35. personal property – homeowners – oil – outside premises - primary heating system
36. personal property – homeowners – oil – fiberglass tanks - primary heating system

37. personal property – other – wood stoves primary heating system
38. personal property – homeowners – coal – inside premises - primary heating system
39. personal property – homeowners – coal – outside premises - primary heating system
40. personal property – other – oil – inside premises - primary heating system
41. personal property – other – oil – outside premises - primary heating system

Pricing - General

1. How frequently do you review the personal property, commercial property, or commercial liability rates you charge in Nova Scotia? How do you conduct such reviews? What data do you consider in performing the reviews? Does the nature of the reviews differ among personal property, commercial property, and commercial liability?

2. Do you consider your Nova Scotia claim experience to be statistically credible? To the extent it is not fully credible, what other information is considered in setting rates?

3. To what extent do you consider your company's loss experience in other provinces in determining the personal property, commercial property, or commercial liability rates you charge in Nova Scotia?

4. To what extent do you consider the Nova Scotia experience of other companies in determining the personal property, commercial property, or commercial liability rates you charge in Nova Scotia? What is the source of this experience?

5. To what extent do you consider other companies' experience in other provinces in determining the personal property, commercial property, or commercial liability rates you charge in Nova Scotia? What is the source of this experience?

6. To what extent do you consider the loss experience or trends of companies operating in the United States in determining the personal property, commercial property, or commercial liability rates you charge in Nova Scotia?

7. How is Nova Scotia's exposure to catastrophic losses reflected in the personal property and commercial property rates that you charge in Nova Scotia? How do you measure Nova Scotia's exposure to catastrophic losses? What will be the effect of Hurricane Juan on Nova Scotia's rates and availability?

8. Why is there a difference between the personal property, commercial property, and commercial liability rates that you charge for risks located in Halifax as compared to similar risks located in Toronto? Are there distinctions in risk between Nova Scotia and other provinces? Please explain and provide statistical support.

9. How are your premiums determined for particular commercial property or commercial liability risks that you write? Do you have rate manuals that present the precise premiums you would charge the particular commercial property or commercial liability risks that you insure: if so, how are commercial property risks and commercial liability risks categorized for rating purposes? Or, are risks individually rated based on the judgment of the company? To the extent that judgment is applied, do you have guidelines to be followed in applying that judgment? Is it possible for two identical risks to be charged different premiums?

10. Do you apply surcharges or discounts to your personal property, commercial property, or commercial liability risks based on the risk's claim experience? If so, describe your program of surcharges or discounts. What would be the impact of excluding non-at-fault claims (such as damage caused wind) in determining the surcharges or discounts to apply? Please discuss the viability of this as a solution to the concern of insureds that they are penalized for things outside their control.

11. Do you use an insured's credit score in determining any of your rates? If so, how?

12. What discounts do you offer to personal property, commercial property, or commercial liability risks? In determining the premium for a personal property, or commercial property risk, do you consider improvements that may have been made to the home or business such as electrical, plumbing, heating system, roofing, etc.?

13. How have the Occupational Health & Safety Act, the Occupiers' Liability Act, the Heritage Property Act, and the Volunteer Protection Act been reflected in the commercial property or liability rates that you charge in Nova Scotia? Have you had a legal opinion on these Acts regarding their impact on your exposure?

14. What has been the effect of recent changes in the Nova Scotia crime rate on the personal property and commercial property rates that you charge?

15. Do you consider rate predictability/stability to be good for both the industry and the consumer?

Rate Changes

1. When did you last revise the personal property, commercial property, and commercial liability rates you charge in Nova Scotia? What were the province-wide average rate level changes? Did the rate changes vary by type of risk? For each of the three lines of business, what percentage of your policyholders would have received a rate level increase in excess of 25%, and what are the categories of risks that received increases in excess of 25%?

2. Representatives from non-profit organizations and small businesses have reported dramatic increases in premiums despite not having made any insurance claims. What rate changes have your company taken over the past five years with respect to the following categories of risk, and why?

   a. volunteer fire departments – province-wide average
   b. volunteer fire departments – Cape Breton county
   c. legions – wet
   d. legions - dry
   e. youth related groups (e.g., boys & girls clubs, YWCA, day cares, teen health counseling, scouting)
   f. recreational and sports groups
   g. other non-profit organizations
   h. commercial property - boating
   i. commercial property – other small businesses
   j. commercial property – other
   k. commercial liability and D&O – boating (including kayaking and canoeing)
   l. commercial liability and D&O – other small businesses
   m. commercial liability and D&O – other

Underwriting

1. How does your company make the decision to expand or contract writings – either in general, or for certain types of risks/markets, or for specific risks/markets? Have you stopped writing any lines of insurance in the last three years, in whole or in part? If so, what are they? Who makes the decision? When are such decisions made? What would cause such decisions to be made?

2. Do you offer environmental coverage in your homeowner's policy? If so, please describe the coverage. Do you offer environmental coverage in your commercial policies? If so, please describe the coverage and the costs.

3. Are mold-related claims a concern for you in Nova Scotia? If so, describe the extent of your concern and any actions that you have taken.

4. In determining whether or not to insure a particular personal property or commercial property risk, do you consider improvements that may have been made to the home such as electrical, plumbing, heating system, roofing, etc.?

5. In determining whether or not to insure a particular personal property, commercial property risk, or commercial liability risk, to what extent do you consider the risk management practices implemented by the risk such as the formation of a risk management committee?

6. Do you provide homeowners insurance and commercial property or commercial liability insurance to risks that operate a business out of their home? If so, do you allow such a customer to cancel the commercial policy and maintain the homeowners policy with your company? If not, why not?

7. How have the Occupational Health & Safety Act, the Occupiers' Liability Act, Heritage Property Act, and the Volunteer Protection Act been reflected in your underwriting?

8. If a roof has a warranty for twenty-five years, when would you require an inspection; at what age? Do you have an underwriting policy with respect to the age of a roof? What is your policy?

9. There tend to be differences among insurers in the package of coverages they provide under their homeowner policies. This makes it difficult for the consumer to comparison shop. Do you believe that a statutory policy, setting out uniform minimum standards of coverage, with additional optional coverages, is a reasonable manner to alleviate this problem?

10. As respects personal property, commercial property, or commercial liability, if a risk had its policy cancelled by another insurer, will your company consider insuring that party? Provide three situations where your company would be willing to do so.

11. To what extent do you promote the use of higher deductibles by your insureds as a means to control their premiums? What is the average deductible amount that your insureds purchase for personal property and commercial property insurance? For personal property and commercial property, separately, what is the approximate percentage difference between the premium for a policy that carries the average deductible amount and the premium for a policy that carries a deductible amount that is twice the average?

Profitability

1. What after-tax return on equity has your company experienced for each of the years 1998, 1999, 2000, 2001, and 2002 in Nova Scotia for each of the personal property, personal liability, commercial property, and commercial liability lines of business?
2. What after-tax return on equity is targeted by your company in each of these lines of business?
3. To what extent has investment income on equity and cash flow affected your company's profitability in the personal property, personal liability, commercial property, and commercial liability lines of business over the past five years? How has this impacted your rates?

Volunteer Fire Departments

1. What statistical information is available to support the high increase in premiums of some volunteer fire departments? What makes voluntary fire departments a high risk organization that warrants high premiums?
2. If volunteer fire departments are no longer able to operate due to high insurance premiums, how would this affect your ability to provide personal and commercial property insurance to rural communities? Is this possibility of concern to you? What actions, if any, have you taken to address this possibility? Do you believe that the insurance industry has a duty to insure homes in rural Canada? Please explain your answer.

Non-Profit Sector

1. How do you set the rates and premiums for non-profit organizations? Are non-profits treated as a separate rating classification for commercial property or commercial liability? What has been the claim experience for this sector in Nova Scotia?
2. Do you consider the non-profit sector an important part of Canadian society? Are you aware that volunteer organizations have ceased operations and others are threatened by the unavailability of insurance at affordable rates? Do you have any suggestions to alleviate this problem?
3. Would it be possible for the insurance industry to share the risks with respect to non-profit organizations on a different basis than is currently practiced, such as a program similar to the Facility Association?

4. Insurance has become a major portion of the budget of many non-profit organizations. Volunteers are disheartened when huge percentages of their fundraising efforts are used to pay insurance premiums, rather than to provide services. Would it be viable to charge premiums based upon an organization's revenue and a predetermined risk classification, for example, low, medium or high risk? Do you have any other suggestions to alleviate this problem?

Oil Tanks

1. What is the difference in risk between a new oil tank installed indoors vs. one that is installed outdoors? What is this view based on? Do you use age criteria in assessing the risk presented by an oil tank? If so, specify. What is the difference in risk between steel and fiberglass oil tanks? What is this view based on? How is the existence of oil tanks (by type: indoor vs outdoor) reflected in underwriting and rates that you charge?

2. Do you believe that there should be regulations regarding the installation and inspection of oil tanks? If yes, what regulations would you like to see enacted?

3. Do you think that insurers should be required to accept a risk with an oil tank so long as the tank had received approval by a certified inspector?

Communications With Insureds and Brokers/Agents

1. Poor communication or the failure to communicate either on a timely basis or at all has been a repeated concern of insureds. Some insureds with mortgages or business assets have reported receiving only two weeks notice that their insurance will not be renewed, which puts them at risk of possible mortgage foreclosure or ceasing their operations.

2. What is your company's policy on communicating reasons for non-renewal or reasons for large rate increases? What is told to insureds and how much notice is given?

3. Do you agree that some of the frustration experienced by insureds would be reduced if insurers gave more notice? How much notice can your company provide in the case of non-renewals or large premium increases? When you deny or fail to renew insurance are you prepared to give reasons? If not, why not? If you do renew with a large increase in premium are you prepared to explain and justify the reasons for the increase to the insured?

4. Is there a way for your insureds to check to be sure that his/her premium properly reflects his/her particular risk characteristics, has been calculated accurately, and fully reflects all of the discounts that he/she is entitled to?

5. If an insured complains that an error has been made on his/her application or record, what mechanism do you have to immediately correct the information? The Board has heard from numerous individuals who have tried to get assistance through their broker to address such problems, and there appears to be no avenue for insureds to seek redress in a timely fashion. Offer suggestions as to how this matter can be remedied.

6. What sessions or meetings and other communications do you have with brokers or agents to inform them of legislation such as the Heritage Property Act, the Occupational Health & Safety Act, the Occupiers' Liability Act, and the Volunteer Protection Act?

Inspectors/Adjusters/Loss Control

1. The Board has heard a number of complaints about the qualifications of insurance company inspectors and to a lesser extent, adjusters. What training and qualifications are required by your company? How is this monitored? Are you aware of any initiatives by insurers to set professional standards for its inspectors and adjusters? Would this be a reasonable course?

2. What loss control systems has your firm adopted?

High Risk Geographic Areas

1. The Board has heard of geographic areas being designated as high risk. Often this is referred to a postal code rating. What does this mean? Does your company employ this method of assessing risk? If so, how? What areas in Nova Scotia are deemed high risk? For what reasons? Do you have supporting statistics? If so, provide such statistics.

Dispute Resolution

1. Would you agree to mediation or some alternate binding dispute resolution mechanism for such matters as: house repairs, automobile repairs, oil tank disputes, rectification of errors on an insured's file, and any other such areas of disagreement? If not, indicate why not.

Consistency in Industry Standards

1. Are you aware of any initiatives on the part of insurance companies to set insurability standards for such things as heating systems (oil tanks, coal, and wood stoves in particular), electrical systems, plumbing systems, and risk management practices in general? If so, what are they? How are consumers made aware of these standards?

Disabled Persons

1. To what extent do you consider a person's disabilities in premium determination? To what extent do you consider a person's disabilities in risk selection? What statistics or other information do you have to support any special rating or underwriting treatment?

2. Has your company ever had a surcharge related to any disability? If so, explain.

Privacy

1. To what extent is information about an insured shared among companies, and how is this sharing of information done; what is this information stored?

Solutions

1. Do you believe there is an insurance affordability or availability problem in Nova Scotia for, at least, certain types of risks? If so, which risks?

2. What actions do you suggest the Board recommend to the Government to address any such problems?

Appendix-Exhibit 8 - Insurance Companies to Whom Questionnaire Was Sent

Company	Date Sent	Response	Date Received
ING	June 15, 2004	Yes	July 26, 2004
American Home	June 15, 2004	Yes	July 20, 2004
Royal & SunAlliance	June 15, 2004	Yes	July 23, 2004
Aviva	June 15, 2004	Yes	July 19, 2004
Lombard	June 15, 2004	Yes	July 19, 2004
Economical	June 15, 1004	Yes	July 14, 2004
Lloyd's	June 15, 2004	Yes	July 13, 2004
The Co-operators	June 15, 2004	Yes	July 15, 2004
Dominion	June 15, 2004	Yes	July 21, 2004
Temple	June 15, 2004	Yes	July 15, 2004
Unifund	June 15, 2004	Yes	July 21, 2004
Wawanesa	June 15, 2004	Yes	July 26, 2004
Portage la Prairie	June 15, 2004	Yes	July 5, 2004/ Aug. 19, 2004
Liberty Mutual	June 15, 2004	No	
American Bankers	June 15, 2004	Will not be responding	
Zurich	June 15, 2004	Yes	August 9, 2004
Sovereign General	June 15, 2004	Yes	July 20, 2004
Kings Mutual	June 15, 2004	No	
Allstate		Response received, not sent questionnaire	July 15, 2004

Appendix-Exhibit 9 - Summary of Insurance Company Responses

NON-RENEWAL

Question 1	**What percent of your policies in Nova Scotia did you non-renew in each of 1999, 2000, 2001, 2002, and 2003?** **What was your non-renewal percentage in these years for personal property, commercial property, and commercial liability?**
Company A	NA
Company B	Depends on category Homes over 100 years: 2000, 0%; 2001, 38%; 2002, 64%; 2003, 56% Other categories ranged from 0% to 6% Did not write Glace Bay area 2000-2003
Company C	Write churches and other small business 0% non-renewal
Company D	Commercial property: 2002, 31%; 2003, 48% Commercial liability: 2002, 31%; 2003, 55%
Company E	NA
Company F	27-38%
Company G	Minimal
Company H	Not tracked
Company I	Approx. 10%
Company J	Not available
Company K	NA
Company L	Very few Where policy holder refuses to take corrective, cancel, but give 2-6 months' notice
Company M	Personal Property: Over 5 years, 8-4.5% Non-renewal is on a policy-by-policy basis Commercial: Less than 1% by co. 10-15% overall
Company N	Personal Property: Varies; 6-14.3% over last 5 years Retention rate declining Commercial: Legions : 2000, 2.6%; 2001, 10.5%; 2002, 42.1%; 2003, 25% Churches: 2000, 18.2%; 2001, 26.4%; 2002, 18.2%; 2003, 26.5% Vol. Fire Dept.: 2000, 14.7%; 2001, 13.3%; 2002, 22%; 2003, 20% Generally, retention rates decreasing
Company O	Almost 10% less policies written in 2003 than 2000-20002

PRICING—GENERAL

Question 1	**How frequently do you review the personal property, commercial property, or commercial liability rates you charge in Nova Scotia?** **How do you conduct such reviews? What data do you consider in performing the reviews?** **Does the nature of the reviews differ among personal property, commercial property, and commercial liability?**
Company A	Personal Property: Annual based on 5-year loss trend Commercial: Based on external organizations
Company B	Personal Property: Annually No commercial property or liability
Company C	Upon renewal
Company D	Commercial: Annually, at renewal, but experience and rate indications monitored quarterly for small businesses
Company E	NA
Company F	IAO base + adjusted Regular audits
Company G	Annual
Company H	Personal Property:Annual Commercial: IAO
Company I	Annual
Company J	Personal Property: Twice annually Commercial: IAO; no change in last 5 years
Company K	At least annually
Company L	Generally annually
Company M	Annually, last Jan. 1, 2004
Company N	Personal Property: Annually Sometimes 2 times/year Look at historical co. experience adjusted for development, trend, loadings, amt. of insurance increase changes, prior rate changes Loss ratio method Personal Property may or may not be credible depending on line of business Commercial property: Is credible, liability is not fully
Company O	Personal Property: Quarterly Commercial: Based on market information

Question 2	**Do you consider your Nova Scotia claim experience to be statistically credible? To the extent it is not fully credible, what other information is considered in setting rates?**
Company A	Personal Property: Not considered credible; therefore use industry data as a complement Commercial: Own data not credible; use IBC and IAO
Company B	Own experience not fully credible Use projected prior indication as complement of credibility
Company C	Look at claims experience nationally
Company D	No, use rest of Canada
Company E	NA
Company F	Individual risk No difference based on territory
Company G	Homeowners is credible; other products supplement with industry experience Commercial: Use Canadian loss experience combined Provincial experience incorporates own long-term experience
Company H	Personal Property: Habitational is credible Commercial: IBC and IAO national data used
Company I	Homeowners is fully credible, for other personal lines use last 5 years' experience and rates adjusted
Company J	Personal Property: Not fully credible Commercial: Not credible
Company K	Data supplemented by Atlantic data or national data where credibility at issue Catastrophe loads are national Commercial: Based on industry experience and competitive positioning
Company L	Consider Nova Scotia Personal Property to be credible If small exposure in Personal Property affects credibility, data may be supplemented with Atlantic Canada or national data Other consideration, competitive positioning
Company M	Commercial: Normally IBC industry code and overall for the province loss ratio Commercial: No, look at performance of a particular class within Atlantic territory
Company N	Commercial: Use Atlantic and Ontario data and sometimes trend
Company O	Nova Scotia Personal Property is credible, based on 5000 claims in prior 5 rolling accident years For smaller affiliated company and commercial lines, may consider Nova Scotia industry loss trends market information as well

Question 3	**To what extent do you consider your company's loss experience in other provinces in determining the personal property, commercial property, or commercial liability rates you charge in Nova Scotia?**
Company A	Personal Property: Only Nova Scotia data Commercial: Portion of premium pays for rating requirements of reinsurance Affected by worldwide results
Company B	Sometimes combine Nova Scotia and New Brunswick to calculate loss development factors
Company C	Look at claims experience nationally
Company D	No
Company E	Look at Canadian court decisions
Company F	Individual risk
Company G	Personal Property: Supplement analysis with IBCNova Scotia data and commercially available tools, plus competitive position Commercial: IAO industry data; IDEA data base
Company H	Personal Property: No Commercial: Use IAO
Company I	Personal Property: No Commercial: Use IAO and IBC—Atlantic Region for liability Commercial property: Is location specific, i.e., Nova Scotia
Company J	Consider other provinces when relevant IBC stats loss trend analysis and catastrophe loading
Company K	Personal Property: Only if data not credible Commercial Industry based
Company L	No, but see above
Company M	Commercial: See above
Company N	May consider other provinces for smaller lines of business Commercial: Use Atlantic and Ontario to supplement where Nova Scotia data not mature
Company O	Nova Scotia only

Question 4	**To what extent do you consider the Nova Scotia experience of other companies in determining the personal property, commercial property or commercial liability rates you charge in Nova Scotia? What is the source of this experience?**
Question 5	**To what extent do you consider other companies' experience in other provinces in determining the personal property, commercial property or commercial liability rates you charge in Nova Scotia? What is the source of this experience?**
Company A	Personal Property: Use affiliate company
Company B	Personal Property: Nova Scotia industry data
Company C	No
Company D	No
Company E	Yes, if other companies' rates increase particular losses; keep close eye on marketplace; important to look at patterns in other provinces
Company F	Individual risk
Company G	Use industry experience for Nova Scotia Commercial: Compare Rates with IAO
Company H	Personal Property: Affiliated companies Commercial: IAO
Company I	No
Company J	IBC stats loss trend analysis and catastrophe loading
Company K	Temper rates on competitive basis
Company L	Own experience
Company M	Commercial: No Some data from IBC, if they have a problem in a particular class
Company N	Do not for Personal Property or Commercial
Company O	May use Nova Scotia industry loss trends Commercial: IBC brown book No other CO

Question 6	**To what extent do you consider the loss experience or trends of companies operating in the United States in determining the personal property, commercial property, or commercial liability rates you charge in Nova Scotia?**
Company A	Personal Property: No Commercial: Use IBC and IAO No other companies outside Nova Scotia Commercial: Portion of premium for rating requirements
Company B	Do not consider data of other companies operating in the US
Company C	No
Company D	Commercial: Maybe, to a limited extent
Company E	Not for pricing, but look at US experience in commercial for risk selection, but cognizant of differences US experience impacts reinsurance costs ... trickle down to Nova Scotia
Company F	Individual risk
Company G	No
Company H	No
Company I	No
Company J	No
Company K	Monitor for trends, litigation
Company L	No
Company M	No
Company N	No
Company O	No

Question 7	**How is Nova Scotia's exposure to catastrophic losses reflected in the personal property and commercial property rates that you charge in Nova Scotia? How do you measure Nova Scotia's exposure to catastrophic losses? What will be the effect of Hurricane Juan on Nova Scotia's rates and availability?**
Company A	Removed from data Catastrophe Factor Increases in reinsurance rates and change in loss trends
Company B	No individual policy will be affected Use Catastrophe Loss weighting factor
Company C	Rates not changed due to Hurricane Juan Exposure to catastrophic losses minimal
Company D	Commercial: Catastrophe experience included in loss experience, but not significant for Hurricane Juan
Company E	Single event such as Hurricane Juan does not trigger a rate change, but repetition of the event will; Catastrophic losses are part of overall loss experience
Company F	No significant impact
Company G	Small effect Personal Property: Excludes catastrophic loss; use loading factor Commercial: Includes catastrophic loss
Company H	Personal Property: Adjust historical losses Commercial: CGI Hurricane Juan: Small effect
Company I	Catastrophe excluded Hurricane Juan: Minimal impact
Company J	Use Atlantic industry catastrophe experience for catastrophe loading
Company K	Small effect; use catastrophe loading
Company L	No major effect Catastrophe loading: 1-4% is used, based on national long-term average with some adjustment for event history on provincial basis
Company M	Only as it affects long-term loss ratio, if expected to recur
Company N	Personal Property: Rates exclude catastrophic losses, but add long-term loading factor; therefore effect of Hurricane Juan will be much less than actual affect Commercial: Exclude all loss above retention level and apply a catastrophe loading based on catastrophic losses and reinsurance costs No impact on availability
Company O	Catastrophe losses removed Catastrophe load May affect catastrophe load over 15 years

Question 8	**Why is there a difference between the personal property, commercial property, and commercial liability rates you charge for risks located in Halifax as compared to similar risks located in Toronto?** **Are there distinctions in risk between Nova Scotia and other provinces? Please explain and provide statistical support.**
Company A	Difference in loss distribution, fire, theft, water damage, crime rate, socio-economic factors, provincial programs, fire protection, and proximity to US
Company B	Historical loss results differentiate rates Different labour costs, materials, etc.
Company C	No difference except for windstorm
Company D	Each small business individually rated
Company E	Set personal rates in local branch, subject to head office guidance; Toronto not relevant
Company F	Differentiate for natural perils, e.g., earthquake
Company G	Due to construction, occupancy, business, crime rates, cost of construction and labour, replacement costs, consumer attitudes
Company H	Due to weather, location, type of house, demographics
Company I	Due to labour/material/repair costs, age, construction of building, sewer back-up, hail, earthquake
Company J	NA
Company K	Exposure to perils, theft, weather losses and construction values differ Commercial: Rates lower than rest of country
Company L	Rates based on historical. Performance in the area of risk
Company M	Commercial: Use Atlantic Canada exposures and loss results
Company N	Weather, theft, fire experience, tax rates, regional expense loadings, inflationary impacts on loss trends, etc.
Company O	Weather patterns, climate and frequency of weather-related occurrences Crime and theft Types of heating Labour and materials

Question 9	**How are your premiums determined for particular commercial property or commercial liability risks that you write? Do you have rate manuals that present the precise premiums you would charge the particular commercial property or commercial liability risks that you insure; if so, how are commercial property risks and commercial liability risks categorized for rating purposes. Or are risks individually rated, based on the judgment of the company? To the extent that judgment is applied, do you have guidelines to be followed in applying that judgment? Is it possible for two identical risks to be charged different premiums?**
Company A	IAO consistent base rate from actual loss statistics Use judgment; monitor deviations from rates and compare to actual experience
Company B	Not written
Company C	Judgment rating only is used
Company D	Commercial: Risks individually rated Scheduled credits and debits can be applied Possible to have two rates for same risk
Company E	Commercial packages for retail stores, offices, and small contractors set by statistical data; these rates are not flexible Also set individual rates for commercial market which have different risk characteristics Use a manual as a guide; rates vary at discretion of the underwriter (within reasonable limits) Also use CGI as a guide if do not have own liability premium Flexibility permitted an underwriter depends on that underwriter's prior results
Company F	MGA proposed prices
Company G	IBC industry classes + supplemental classes Risk Grade and Hazard Grade Company appetite
Company H	CGI/IAO, subject to credits or debits
Company I	IBC codes, commercial industry experience, CGI liability for Atlantic Region Various criteria, size and scope of business, individual claims experience, financial viability, CREDIT SCORE
Company J	Individual rates based on manual Rates and underwriters' assessment of a risk Compliance to "rating practices"
Company K	Rating guides Industry Identification codes Nature of operation; Province; Construction of building; Size and loss experience of individual risk Risk management feature i.e., underwriters' assessment
Company L	NA—do not write commercial

Company M	Commercial: Premium tables for small business and contractors packages Non-package business uses “a well established and long time standard industry established schedule rating format for determining rates. The schedule rating is based on both building characteristics and operational characteristics.” Maintain manuals for commercial property and liability
Company N	Based on “rating engine” No rate manuals Judgment of company used in both rating and underwriting Two identical risks could have different premiums
Company O	Actuarial-developed base rates on own experience Also CGI Commercial: Underwriters assess individual risks and make rate adjustments Small business rate tables • guidelines • credit/debit

Question 10	**Do you apply surcharges or discounts to your personal property, commercial property, or commercial liability risks based on the risk's claim experience? If so, describe your program of surcharges or discounts. What would be the impact of excluding non-at-fault claims (such as damage caused by wind) in determining the surcharges or discounts to apply? Please discuss the viability of this as a solution to the concern of insureds that they are penalized for things outside their control.**
Company A	Personal Property: 3 years claims-free claims, 10% discount; 5 years claims-free: 15% discount Most Personal Property losses, not at fault Commercial property: Use loss history; "a loss for which the insured bears no responsibility should not result in a surcharge"
Company B	Claims-free: 3 years, 10%; 5 years, 15% Surcharge: 1 claim/5 years, 5% 2 claims/5 years, 25% More than 2 claims/5 years, 50% Claim-free discount would be reduced or those not eligible have increased rates What is outside of one's control is subjective
Company C	Discounts and surcharges based on risk's claim experience "determined at judgment of underwriter"
Company D	Commercial: No surcharge, but commercial individually rated on claims experience
Company E	Personal Property: Claims-free discount (permits one claim under $300) No claims surcharge, claims frequency results in re-offer with higher deductible or coverage limit. Also, have not counted Hurricane Juan claims
Company F	NA
Company G	Personal Property: No surcharge for claims experience Claims-free discount: no claims in 3 years, 10% $200 deductible Not-at-fault very difficult Commercial: No specific discounts or surcharges Commercial: Based on individual risk and loss experience
Company H	Personal Property: Yes Claims-free: 3years, 15% Commercial: No specific surcharges or discounts Claims history is important Most claims not at fault
Company I	Claims-free: 10%, plus other discounts ranging 5-10% Surcharge: Homes more than 64 years 25% surcharge for tenant in commercial premises Claims surcharges
Company J	At fault is judgmental
Company K	Personal Property: Claims-free discount if no claim in 3 years Commercial: Reviewed individually Would add to premiums Commercial: No-fault loss looked at carefully, to minimize impact

Company L	Burglar discount, new homes, electric heat, seniors discounts, and claims-free
	Surcharges for wood stoves, non-standard heat, and older oil tanks
	Few claims are direct result of insured's action
	This would penalize those without claims
Company M	No
Company N	Claims-free discounts: 5-15%
	Surcharge: 2 or more claims in 5 years, 10%
	Commercial property: Surcharge and discount based on risk's claim experience, varies: –6% to +6% (excludes B&M and crime)
	Commercial liability: Based on limit, deductible, kind of loss, status of loss, amount of loss, number of years of loss experience, industry code
	Maximum credit 30%; no maximum debit.
	"Discounts and surcharges are statistically proven and show that past claims experience is indicative of future claims experience."
	Excluding not-at-fault claims introduces subsidization
Company O	Claims-free: 3 years, 10%
	Surcharge: Second claim in 3 years, 15%
	At-fault would impact claims-free discount; most property claims are not at fault

Question 11	**Do you use an insured's credit score in determining any of your rates? If so, how?**
Company A	No
Company B	Use Canadian Property Loss Score from Equifax
Company C	No
Company D	No
Company E	No
Company F	NA
Company G	No
Company H	No
Company I	No (but see above re Commercial)
Company J	No
Company K	No
Company L	No
Company M	No
Company N	No
Company O	No

Question 12	**What discounts do you offer to personal property, commercial property, or commercial liability risks? In determining the premium for a personal property, or commercial property risk, do you consider improvements that may have been made to the home or business such as electrical, plumbing, heating system, roofing, etc.?**
Company A	Personal Property: Age of building, age of insured, mortgage-free, renewal, stability , co-op, protective systems, claims-free No specific discount for home improvement Commercial property: Underwriters instructed to charge "lower than book rate for risks with superior features" Commercial Liability has formalized discounting process based on length of years in business, volume of sales, hiring practices and claims history
Company B	Do not link improvements to premium, generally associated with acceptability Claims-free, Group discount, New home discount, Protective devices, Mature market, Multi-line
Company C	Do not offer discounts Do not consider improvements
Company D	Commercial: Offer discount for sprinkler or alarm systems
Company E	Basic personal property rates are based on age of dwelling and whether there is any supplemental use for another purpose, subject to various discounts Age of risk, age of owner, alarm system, multi-line, and claims experience
Company F	NA
Company G	Relate to eligibility No smokers, alarms, claims-free, dual policy, newer home, loyalty
Company H	Quality home discount for house more than 16 years if heating, plumbing, and electrical updated within 25 years and roof within 15 years 50+ discount, alarm, claims-free, inside oil tank, mortgage-free
Company I	Claims-free, new home, seniors, protection systems, co-op housing, Block Parent, preferred heat (electrical)
Company J	Age discount, alarm, claims-free, electric heat, loyalty, mortgage-free, new home package Commercial: Financial, physical, and management attributes Overall condition is important to risk If updates, can qualify for a better rate
Company K	Personal Property: Claims-free , Mature 50+, Long-term customer, Mortgage-free, Multi-line, New(er) home, Alarm Underwriting requirements for "proper maintenance" Look at these things for Commercial: Construction, Fire protection, Age of building, Survey grading, Housekeeping, Quality controls, Compliance with regulations and legislation
Company L	No specific discounts; if updated will generally qualify for a "better" product

Company M	Personal Property: discounts Alarm system Claims-free Electric heat Mature market Mortgage-free Multi-policy New home Maximum discount: 45% (not including deductible discount) Commercial: Discounts for deductibles and coverage Older risks sometimes added to package with modest premium
Company N	Personal Property: Age of home, mature market, claims-free, alarm, heat, mortgage free, multi-policy discount Improvements considered in risk selection Commercial property Discount/ surcharges, years in business, D &B score, receipts evaluation, maximum number of mortgages at any one location, management evaluation, quality of neighbourhood, number of recommendations, risk evaluation, alarm discount, fire protection system, sprinkler, age of building, principal heating and auxiliary heating. Commercial liability: Discount/surcharges, years in business, D &B score, receipts evaluation, management evaluation
Company O	Mortgage-free, age of insured, new(er) home, alarm, electric heat, multi-residence, multi-policy Commercial: Discount or surcharge based on building quality, including improvements, loss control, quality control, length of time in business, housekeeping For heritage homes require updated electrical, heating no more than 25 years, plumbing upgraded to copper or ABS with maximum 25% of drain lines galvanized, roof max. 20 years unless metal or slate

Question 13	**How have the Occupational Health and Safety Act, the Occupiers' Liability Act, the Heritage Property Act, and the Volunteer Protection Act been reflected in the commercial property or liability rates that you charge in Nova Scotia? Have you had a legal opinion on these Acts regarding their impact on your exposure?**
Company A	Personal Property: NA Commercial: Respond to all legislation Occupier's Liability Act has affected claims settlements and rates adjusted accordingly
Company B	Not written
Company C	Not reflected in rates Do not have a legal opinion
Company D	Reflected in rating by considering overall review, but no legal opinion
Company E	Not part of rating and no legal advice obtained
Company F	NA
Company G	Have not had legal opinion and not taken into consideration in setting rates
Company H	Personal Property: NA Commercial:Use IAO and to extent reflects experience will also reflect change in rates
Company I	NA
Company J	Has not considered
Company K	NA
Company L	Says, Not applicable
Company M	It hasn't
Company N	Loss exposure should reflect these acts as claims eliminated No legal opinion on these Acts
Company O	Says, Not applicable Occupier's Liability Act same as other provinces

Question 14	**What has been the effect of recent changes in the Nova Scotia crime rate on the personal property and commercial property rates that you charge?**
Company A	Not specifically investigated
Company B	No impact at this time
Company C	No effect on rates in recent times
Company D	To extent reflected in loss experience
Company E	No impact at this time
Company F	NA
Company G	NA
Company H	Crime rate down, but average claim up
Company I	Has not observed any increase theft rates, nor projected
Company J	Not itself a factor
Company K	Reducing crime rate, reducing premiums
Company L	Rates based on experience and competitive position Increase in crime rate would not necessarily affect policyholders
Company M	No specific adjustment in rates
Company N	Reflected in loss exposure
Company O	Don't analyze crime rate itself; theft has decreased

Question 15	**Do you consider rate predictability/stability to be good for both the industry and the consumer?**
Company A	Yes
Company B	Yes
Company C	Yes
Company D	Yes, fine balance between responsiveness and stability
Company E	Yes
Company F	NA
Company G	Good
Company H	Good
Company I	Stable and affordable premiums right of consumer
Company J	Good
Company K	Good, but variability will always exist
Company L	Yes
Company M	Absolutely
Company N	Yes, but the availability of insurance must be the driving factor When adequate rate cannot be allocated to risk, insurers withdraw
Company O	Ideal scenario but claims costs must be stable

RATE CHANGES

Question 1	When did you last revise the personal property, commercial property, and commercial liability rates you charge in Nova Scotia? What were the province-wide average rate level changes? Did the rate changes vary by type of risk? For each of the three lines of business, what percentage of your policyholders would have received a rate level increase in excess of 25%, and what are the categories of risks that received increases in excess of 25%?
Company A	Personal Property: Nov. 2003, 27.3% Homeowners, 30% Tenants and Condos, (–10%) Rented dwellings, 15% Seasonal, (–6.5%) All homeowners received more than a 25% increase Commercial property: 2003 rate increase, 28.3% Commercial liability: 27.4% Overall, 35% of commercial policyholders received more than a 25% increase
Company B	Personal Property: Aug. 2003 Average increase: 3% due to inflation on building materials and labour No customer received an increase greater than 25%
Company C	Do not use standard rating Rates vary by risk
Company D	8% depending on type of risk
Company E	Personal Property: Increased 5% , May 2004 7% increase, 2003 Rate changes across the board for the Maritimes Commercial rates for individual risks were increased in 2003 for first time since 1985; these increases were 10-15% Average increase for 2004, currently 3% No increase for package policies, but minimum premiums have increased 10% per year for last 3 years (but still well below average minimum industry premium)
Company F	NA
Company G	Personal Property: 2000, 5.8%; 2001, 6.2%; 2002, 10.0%; 2003, 14.0% Commercial: 2000-01, 16.4%; 2001-02, 19.3%; 2002-03, 24.5%
Company H	May/June 2004: (–2.4%) or 0% Personal Property: None greater than 25% Commercial: Greater than 9% in last 3 months
Company I	Early 2004: +5% Small number of residential policies may receive greater than 25% Less than 1% to receive premium more than 25%
Company J	June 2004: +5%overall None greater than 25% Information not available for commercial IAO—property rate cards and rating manual used
Company K	Personal Property: March 2002, 6% all risks; March 2003, 13.1% home; Nov. 2003, 5.3% home; Apr. 2004, 3% home None over 25% Commercial: Statistics not available

Company L	5% increase in last 24 months
Company M	Commercial: Business package, Dec. 2003
	Contractors package, June 2004
	Non package, Ongoing basis
	Rate change less than 5%
	No increases greater than 10% in past 5 years
Company N	Personal Property: Aug. 2003 and Jan. 1, 2004, overall province-wide increase of 11%
	Less than 1% of risks received increase greater than 25%
	Commercial: June 2004
	Commercial property: Rate change 6%
	Liability: 12% (9.3% combined)
	About 2.5% of commercial policies receive rates increase of greater than 25% because were not at same level as similar risks or had a claim
Company O	Nov. 2003, +9.3%
	12% of policy holders saw greater than 25% increase due to oil tank losses
	This followed rate increases as follows: 2000, 0%; 2001, 15.2%; 2002, 20.5%; 2003, 18.6 ; 2004 ytd, 2.7%
	Commercial: No response

Question 2

Representatives from non-profit organizations and small businesses have reported dramatic increases in premiums, despite not having made any insurance claims. What rate changes have your company taken over the past five years with respect to the following categories of risk, and why?

- **a. Volunteer fire departments—province-wide average**
- **b. Volunteer fire departments—Cape Breton county**
- **c. Legions—wet**
- **d. Legions—dry**
- **e. Youth related groups (e.g., boys & girls clubs, YWCA, day cares, teen health counseling, scouting)**
- **f. Recreational and sports groups**
- **g. Other non-profit organizations**
- **h. Commercial property—boating**
- **i. Commercial property—other small businesses**
- **j. Commercial property—other**
- **k. Commercial liability and D&O—boating (including kayaking and canoeing)**
- **l. Commercial liability and D&O—other small businesses**
- **m. Commercial liability and D&O—other**

Company A	See above
Company B	See above
Company C	See above
Company D	See above
Company E	See above
Company F	See above
Company G	See above
Company H	See above
Company I	See above
Company J	See above
Company K	Do not write fire departments, legions, recreational or entertainment groups Do write social services, educational centres and health care
Company L	NA
Company M	NA
Company N	Rates stable in 1999 and 2000 In each of 2001, 2002, and 2003 rates increased 9-33% 2001-2004 Volunteer fire departments increased 10%, 21%, 20%, and 7% Legions increased 12%, 22%, 18%, and 7% Youth-related groups increased 11%, 21%, 19%, and 6% Recreational and sports increased 12%, 22%, 18%, and 7% Boating increased 19%, 31%, 21%, and 9% Other small business increased 17%, 33%, 25%, 12%
Company O	NA

UNDERWRITING

Question 1	**How does your company make the decision to expand or contract writings—either in general, or for certain types of risks/markets, or for specific risks/markets? Have you stopped writing any lines of insurance in the last three years, in whole or in part? If so, what are they? Who makes the decision? When are such decisions made? What would cause such decisions to be made?**
Company A	Have not stopped writing any classes or lines Commercial: Decision can be either regional or corporate Have not ceased writing any lines in last 3 years
Company B	Depends on likelihood of reasonable after-tax return on capital Regional market teams, Risk Management department and finance professionals Have not stopped writing any lines in last 3 years
Company C	Have not stopped writing any lines in last 3 years Underwriting manager of Canada would make decision
Company D	Dependent on consistency of good or bad experience for industry group or codes Has not stopped writing any lines in last 3 years
Company E	Normally Head Office decides new classes of business or withdrawals but individual offices can make decisions for own area. In last three years have withdrawn from writing fitness centres (Head Office request) and have restricted writing of wet legions due to market conditions (branch decision) More cautious writing playgrounds due to changing market conditions
Company F	NA
Company G	None deleted over last 3 years
Company H	Has not stopped writing any types If risk can't be spread appropriately and inordinate premium
Company I	Stopped writing bars, taverns, legions and municipalities
Company J	None withdrawn Profitability
Company K	Has withdrawn from eleven credit and financial risks • large multinationals • entertainment and recreational • liability for risk managed business incl. municipalities Personal Property: • rental properties • properties owned by non-residents Senior management makes decision Reasons: Expertise, risk appetite, product set, market conditions, external legal or regulatory environment, reinsurance, capital, internal governance
Company L	Writings increased over 400% since 2000 Use same guidelines and philosophies as last 100 years Regional leadership team, based in Halifax
Company M	Commercial: Only line out of was bonds (very small amount) Where new technology etc., and difficult to assess risk, will suspend new business to adequately assess new exposure

Company N	Personal Property: Monitor performance on ongoing basis In last 3 years only stopped writing underground oil tanks Commercial: Monitor on ongoing basis; pricing targets and underwriting guidelines adjusted accordingly Class acceptability modified only on a limited number of classes in last 3 years Has retired from municipalities; vol. fire departments (existing clients were grand-fathered) Considered inherent exposures and loss potential—also, wrote disproportionate share of market Joint regional and corporate analysis Also, have specialty company for non-standard property
Company O	Where can't generate reasonable return on equity Example of affiliated companies withdrawing Broker relationship—if continuous poor results- will sever ties Most senior management makes decision Above applies to Personal Property and Commercial

Question 2	**Do you offer environmental coverage in your homeowners' policy? If so, please describe the coverage. Do you offer environmental coverage in your commercial policies. If so, please describe the coverage and the costs.**
Company A	Domestic Fuel Storage Tank Endorsement Commercial IBC debris removal Sub-limit a + limited clean-up endorsement Indirectly pooled
Company B	Cover environmental clean-up re fuel oil due to sudden and accidental discharge; no coverage due to continuous or repeated seepage or leakage
Company C	Do not offer in homeowner's policy
Company D	Commercial: Offer coverage, specialty programs individually rated
Company E	Homeowner's policy includes environmental coverage with some limitations. Includes wells and septic systems. No pollution cover for the lot the building is on, only building and contents Commercial policies have no environmental cover No endorsement available
Company F	NA
Company G	Oil damage to home and contents, not soil + liability Commercial: Sudden and accidental + limited on-site pollution clean-up of $10,000
Company H	1st and 3rd party liability for escape of fuel oil 1st: Building and contents 3rd: Damage to others Commercial: IBC hostile fire protection and can offer IBC 2313 120 hrs; pollution, may be a fee
Company I	Some environmental coverage, not specified Commercial: $50,000 limit land and water pollution clean up Higher limits can be considered subject to environmental survey; must be specifically requested and added
Company J	Limited liability coverage
Company K	Commercial:Limited coverage for 1st and 3rd and sub-limit for clean-up Property $-5 — for $25K clean-up $500 for $500K liability Loss control engineers
Company L	Liability and "owned oil coverage" for $25-50 premiums
Company M	Commercial: No
Company N	Personal Property: Escape of fuel covered for 1st party and 3rd party liability Commercial: Commercial package, designed for offices, retailers services, clubs, has $10,000 land and water pollution clean-up included
Company O	Liability and clean-up; damage to premises and personal property of homeowner and temporary living expenses Excludes environmental coverage for commercial

Question 3	**Are mould-related claims a concern for you in Nova Scotia? If so, describe the extent of your concern and any actions that you have taken.**
Company A	Personal Property: Have exclusions Commercial: Have exclusions and limitations to some coverage
Company B	Exclude loss or damage due to mould
Company C	Exclude mould and mould-related claims
Company D	Excluded on all policies
Company E	Excludes mould
Company F	NA
Company G	Fungi and fungal derivatives exclusion but mould included if result of another insured peril Most Commercial policies have sub-limit Since 2002 developed water claims handling protocol
Company H	Have added exclusion for fungi
Company I	Growing concern Not an insured peril but clean-up must be done properly where water used for fire, water peril loss—adds to cost of claim Where clients do clean-up, provide information Commercial: As of April 2003 mould exclusions inserted in reinsurance treaties and now have exclusions across country
Company J	Excluded under property No action under personal liability Commercial: Follow IBC recommendations
Company K	Industry-wide, not specific toNova Scotia
Company L	Mould is covered when due to insured peril Mould is a maintenance issue and is not covered Revised wording in 2003
Company M	Commercial: Same exposure as elsewhere
Company N	Homeowners' wording excludes moulds Commercial: Excludes mould, but covers mould due to other insured peril CGL has some coverage up to $250,000
Company O	Concern nationally More concerned about writing homes that have had numerous sewer back-ups and would not likely offer sewer back-up coverage Increased costs in restoration to avoid mould claims

Question 4	**In determining whether or not to insure a particular personal property or commercial property risk, do you consider improvements that may have been made to the home such as electrical, plumbing, heating system, roofing, etc.?**
Company A	Personal Property & Commercial Property: Yes, consider
Company B	Have acceptability and inspection criteria for older homes
Company C	Yes, in determining whether to insure
Company D	Consider in determining whether to insure a risk
Company E	These affect risk selection and rate charged
Company F	NA
Company G	Yes, for insurability
Company H	Have criteria for acceptance and amount of coverage Roof must be updated 20-25 years Electrical min. 100 amp on new business; existing business, 60 amp with electrician's recommendation Heating systems must meet current codes Oil tanks: inside, 20 years; outside 15 years Commercial: Always consider upgrades
Company I	Overall condition is important Homeowner's updates to electrical, plumbing, heating and roof can qualify the risk for better rate than otherwise eligible based on age
Company J	Yes (no further explanation)
Company K	Personal Property: Updates considered Commercial: Condition of property factored into acceptance and rating Loss control engineers look at insurability and safety
Company L	Yes
Company M	Yes, if make normally unacceptable risk acceptable
Company N	Personal Property: More than 25 years must have updated plumbing, heating, wiring, and roofing Commercial: Yes, taken into consideration
Company O	Yes; also see above for heritage homes

Question 5	**In determining whether or not to insure a particular personal property, commercial property risk, or commercial liability risk, to what extent do you consider the risk management practices implemented by the risk, such as the formation of a risk management committee?**
Company A	Look favourably
Company B	Look at maintenance and willingness to comply with requests for improvements in order to accept risk
Company C	Underwriting consideration, if taken into consideration
Company D	Would be considered
Company E	More of a factor in larger commercial risks, which they do not insure
Company F	NA
Company G	Important Personal Property: Yes; e.g, insured installs burglar alarm after theft claim Commercial: Indicates insured is proactive Commercial loss control inspection as part of risk acceptance; Loss Contol Team or qualified fee-for-service company at Company's expense
Company H	NA Key underwriting factor
Company I	Commercial: Loss control and loss department work with insureds in preventing losses
Company J	Depends on class, size, and complexity of risk
Company K	Personal Property: Home maintenance, upkeep, etc., considered Commercial: One criteria in assessment
Company L	NA
Company M	Commercial: Nominally
Company N	Commercial: "Favourable management attitude and prudent loss prevention practices are pricing and underwriting considerations and will make a risk much more attractive to an insurer."
Company O	Personal Property:. A policyholder who mitigates risk by ensuring heating, electrical, and plumbing are maintained, likely to get preferential pricing Risks that pose a higher risk due to lack of maintenance either surcharged or denied coverage Commercial: Risk management significant factor Has national risk control manager and 13 consultants to work with individual commercial policyholder to reduce loss exposure and improve operation

Question 6	**Do you provide homeowners insurance and commercial property or commercial liability insurance to risks that operate a business out of their home? If so, do you allow such a customer to cancel the commercial policy and maintain the homeowners policy with your company? If not, why not?**
Company A	Personal Property: Individual case basis Concern is increased exposure due to business activity Extension endorsement Would also insure on commercial basis
Company B	Will insure home business if meets eligibility standards
Company C	Do not provide insurance for home business
Company D	NA
Company E	Yes, but access on individual risks; do not want two liability carriers
Company F	NA
Company G	Endorsement: Guidelines for acceptance of risk Write both commercial and home to avoid disputes between insurers
Company H	Available for certain products (brochure)
Company I	Personal space and business operations become blurred Agent and client work together to assess client needs
Company J	Accept some Depends on risk
Company K	Yes, certain business uses Also extend coverage for incidental office use Do not cover professional liability under homeowner's policy
Company L	Yes, home-based business extensions
Company M	Write commercial coverage added to personal lines
Company N	Home-based business product geared to office and office services, sales, and specific service providers Commercial: May purchase both Currently reviewing this area
Company O	Have home-based business endorsement for limited types of businesses Concern is business liability exposure due to broad interpretation by courts

Question 7	**How have the Occupational Health and Safety Act, the Occupiers' Liability Act, Heritage Property Act, and the Volunteer Protection Act been reflected in your underwriting?**
Company A	Personal Property: Heritage Property Act reflected in underwriting Commercial: Occupier's Liability Act has affected approach to premises liability "due to the higher duty of care imposed by the act" Underwriting philosophy for heritage property: Considers increased costs of rebuilding with like kind and quality
Company B	No changes made to underwriting as a direct result
Company C	NA
Company D	Reflected in underwriting by considering exposure as part of overall review
Company E	Not taken into consideration
Company F	NA
Company G	See above
Company E	Commercial: Part of overall assessment
Company F	NA
Company G	No definable impact on underwriting practices
Company K	Occupier's Liability Act: Duties of occupier are reflected in underwriting guidelines Heritage Property Act: Limits homeowners' ability to make modifications, etc. Cost of repair increased, limit coverage to replacement cost; will only pay amount of insurance purchased Commercial: Occupier's Liability, factored in, but only a few commercial clients would benefit OHSA: Compliance is checked when surveys conducted Reflects risk management; however, mainly affects employees who are not insured (i.e., Workers Comp) Heritage Property: Costs higher to rebuild due to restrictions on building materials etc. Volunteer Protection Act: Organization remains liable Volunteers not liable; non-profit can't pursue the volunteer, but unlikely in any event
Company L	NA
Company M	They haven't
Company N	Looked at for claims and underwriting issues or questions arise
Company O	Initial response, do not handle heritage homes; however, after discussion, indicates will do so if meet updating criteria (as above) Concerns about methods of reconstruction, etc. Concerns about approvals; additional time and costs Occupier's Liability Act: If homes in disrepair, policy cancelled Commercial: Volunteer Protection Act and OHSA not relevant to their portfolio

Question 8	**If a roof has a warranty for twenty-five years, when would you require an inspection; at what age? Do you have an underwriting policy with respect to the age of a roof? What is your policy?**
Company A	No firm policy, look for "flags" and give it underwriting consideration
Company B	Require inspection at 15 years Asphalt or wood shingle/shake roofs more than 20 years are unacceptable Roofs15 years or more must have visual inspection and only written if in excellent shape
Company C	Do not normally get this information Rely on random inspections
Company D	NA
Company E	No firm policy; generally at 20 years roof should be looked at When warranty is up, time for a new roof
Company F	NA
Company G	Generally don't insure if 20 years, but do consider maintenance and overall repair before final decision Require inspection where less than 20 years if reasonable to believe it is in poor repair Commercial: Factor in insurability
Company H	Personal Property: More than 25 years require qualified roofing contractor to confirm condition, otherwise, require replacement Commercial: More than 20 years require information re upgrades/repairs
Company I	Condition of roof primary concern; if in good shape, regardless of age, it is acceptable; if shows signs of deterioration, request client replace roof
Company J	Roofing guidelines based on roofing material; e.,g., asphalt, would contact insured at 14 years If warranty 25 years, would follow up at 23 years If roof in need of replacement or repair, will restrict coverage
Company K	Personal Property: Require roof be updated after 25 years, regardless of length of warranty If not done, cancellation possible May require earlier updating if shows signs of damage or "no longer functioning properly" Commercial: Survey building every 3 years; look at overall construction
Company L	Usually 20 years If more than 20 years, generally not qualified unless upgraded
Company M	Commercial: Controlled by condition, not age of roof
Company N	Personal Property: Roof updating required every 25 years (unless roof has much longer life span) Commercial: All building services must be updated within the past 35 years
Company O	15 years even if warranted for 25 May allow it to go 5-10 years depending on condition; but note re: heritage home, they responded 20 years Most research indicates that asphalt shingles last 60-70% of warranty period; warranties are prorated, so as roof ages, value of warranty is diminished Risk also of consequential damage and mould problems

Question 9	**There tend to be differences among insurers in the package of coverages they provide under their homeowner policies. This makes it difficult for the consumer to comparison shop. Do you believe that a statutory policy, setting out uniform minimum standards of coverage, with additional optional coverages, is a reasonable manner to alleviate this problem?**
Company A	Personal Property: No
Company B	No: Do not believe this is an issue Even if was a statutory base policy, would still have variety of option coverages presenting same comparison problems In favour of companies gaining competitive advantage and addressing niche markets by designing and selling products customers need
Company C	NA
Company D	NA
Company E	May be simpler but "robs the consumer of the ability to shop not only for price but product as well" Innovative products would be lost
Company F	NA
Company G	Not reasonable; two basic policies, Named Perils and All Risk with add-ons Broker is important to explain Even if have standard, shopping will be complex; only consumer education will alleviate the problem
Company H	Better for customer to have choice and tailor to needs More competitive, but most have same basic structure
Company I	Basic policy already exists: fire, wind, and water with liability Regulation unnecessary Agents help insureds assess needs
Company J	No Still have confusion; broker helps
Company K	Does not support; brokers can advise customers IBC advisory wordings Commercial: Small business covers similar, IBC advisory wordings
Company L	Since personal property insurance is not required by law, can't see how that could be done
Company M	NA
Company N	Use IBC wording as base Less ability to compete Role of broker to compare products
Company O	Not good or reasonable Company could not respond to emerging risks/exposures and market opportunities Would remove competitive product and pricing differences May further tighten market Brokers are experts at matching coverage to clients' needs

Question 10	**As respects personal property, commercial property, or commercial liability, if a risk had its policy cancelled by another insurer, will your company consider *insuring that party? Provide three situations where your company would be* willing to do so.**
Company A	Yes, But it is a "flag" that triggers additional underwriting consideration Accept non-payment if no moral concern and will get payment Risk no longer exists; e.g., sewer back-up claims and insured has moved If cancellation is due to condition of outbuildings, will insure and exclude or limit coverage on outbuilding Commercial: Apply own underwriting standards
Company B	Generally would not consider insuring the risk Acceptability on a case-by-case basis Exposure that caused the cancellation is eliminated, loss history has improved over time, or coverage offered is changed to address a specific exposure
Company C	Possibly, e.g., can handle exposure outside of Canada where another company may not
Company D	Would consider if situation giving rise to cancellation is remedied; e.g., woodworker with no dust collector installs one
Company E	Each risk assessed on own merits Cancellation by prior insurer "is a serious and negative underwriting factor" Must consider what the insured has done to alleviate the problem
Company F	NA
Company G	Yes, assess on own merits Where cancelled due to claims history, may work with client to implement loss control measures Where claims were outside insured's control and risk meets underwriting criteria Payment issue
Company H	Apply own underwriting standards Non-payment, and debt honoured to prior insurer If due to losses, consideration to extent of coverage and amount of deductible If deficiencies, if homeowner corrects deficiencies
Company I	Yes, e.g., where insured's current broker unable to place insurance due to lack of market
Company J	Depends, would insure where due to • broker cancellation • other co. could not accommodate values or stopped writing risk • own guidelines less strict
Company K	Would write where company no longer writing, broker no longer, prior insurer insolvent Commercial: Yes, if sure they can underwrite the risk Same process as new business
Company L	Non-payment, put on payroll deduction If previous risk addressed Higher deductibles

Company M	Commercial: If risk meets own underwriting criteria, would consider
Company N	Previous insurer no longer writing in area or due to "appetite," yet acceptable to company
	Class of business no longer open
	Outstanding loss control issue has been resolved
Company O	Even where due to prior claims, if feel not likely to recur and mitigating actions been taken

Question 11	**To what extent do you promote the use of higher deductibles by your insureds as a means to control their premiums? What is the average deductible amount that your insureds purchase for personal property and commercial property insurance? For personal property and commercial property, separately, what is the approximate percentage difference between the premium for a policy that carries the average deductible amount and the premium for a policy that carries a deductible amount that is twice the average?**
Company A	Yes, most common deductible is $500 Premium discount for $1000 deductible is 12%, to a max. of $100 Commercial property: 73% of policies have deductible of $1000-2500
Company B	Not heavily promoted Average deductible is $500 Discount for $1000 deductible is 10%
Company C	Always Deductibles vary by risk No standard amount
Company D	Yes, average commercial deductible is $2500 $5000 deductible, get discount of 5-6%
Company E	Standard deductible is $500 for both Personal Property and commercial, but commercial is moving towards the $1000 deductible, and is becoming the norm for restaurants In Personal Property there is a 15% discount for a $1000 deductible, in commercial it is a 7% reduction; a $2500 deductible in commercial has an additional 8% discount
Company F	NA
Company G	Average deductible $500 for Personal Property; for $1000 offer 20% deduction Most commercial policies carry $1000; discounts vary
Company H	Do not directly promote (up to broker) Majority of clients carry deductible of $500 20% discount for $1000 deductible Standard commercial deductible is $1000 5% difference between deductible amounts
Company I	Generally encourage higher deductibles Elimination of small and frequent losses and keeps costs down Small business deductible $500; offer 10% deduction for $1000 deductible
Company J	Yes Personal Property: $500, 10% discount to a max. of $200
Company K	95% of policyholders select $500 Difference between $500 and $1000 is 12% Commercial: Average deductible is $1000 6% discount for $2500 deductible
Company L	Routinely encourage Discounts 10-15%
Company M	Commercial: Offer, but don't promote Decision left between insured and broker Standard deductible, $500

Company N	Personal Property: Bulk have $500 deductible; 6% deduction for $1000 deductible; 15% discount for $2000 deductible Commercial: Range is $500-1000 Also, 6% reduction, but vary depending on current price adequacy of the risk
Company O	84% of policyholders have a $500 deductible Higher deductible at $1000 has .90 relativity

PROFITABILITY

Question 1 **What after-tax return on equity has your company experienced for each of the years 1998, 1999, 2000, 2001, and 2002 in Nova Scotia for each of the personal property, personal liability, commercial property, and commercial liability lines of business?**

Company A	Personal Property	CP	CL
	−163.5	44.1	74.6
	−66.3	−14.9	34.9
	−133.7	48.4	2.7
	−32.5	22.0	12.0
	−133.2	34.9	102.2
	Above is for years 1999-2003		

Company B	1998, −42.3%
	1999, −5.4%
	2000, +18.5%
	2001, +16.4%
	2002, +14.9%
	2003, −29.4%
	Volume of business not big enough to generate stable after-tax return on equity
Company C	Do not have information forNova Scotia; very small part of business
Company D	Only available for business unit as a whole; business is small part
	1999, 14%
	2000, 5%
	2001, 10%
	2002, 6%
Company E	NA
Company F	NA
Company G	Personal Property: 5-year average, 10.23%
	Commercial property: (−22.61%)
	Commercial liability: (−34.32%)
Company H	Personal Property 1998, NA
	2000, −11%
	2001, −48%
	2002, +2.8%
	Commercial: NA
Company I	Personal Property: Overall 5-year pre-tax loss of $5.7 million
	Commercial: 5-year pre-tax loss, $4.2 million
Company J	Not split by line of business
Company K	NA
Company L	Do not target for specific line
	Have not been profitable; operating expenses 26.8%
Company M	NA
Company N	Not available at provincial line
Company O	NA

Question 2	**What after-tax return on equity is targeted by your company in each of these lines of business?**
Company A	12%
Company B	12%
Company C	NA
Company D	12%
Company E	NA
Company F	NA
Company G	12.5%
Company H	12.5%
Company I	12%
Company J	NA
Company K	12 1/2%
Company L	As above
Company M	NA
Company N	13%
Company O	Personal Property: 10%

Question 3	**To what extent has investment income on equity and cash flow affected your company's profitability in the personal property, personal liability, commercial property, and commercial liability lines of business over the past five years? How has this impacted your rates?**
Company A	Very conservative Target 95% combined ratio Investment income does not fluctuate greatly
Company B	Little impact, only write personal lines and claims are short-tailed, usually 2 months
Company C	NA
Company D	Negligible
Company E	NA; investment results consistent for past 5 years, no impact on rates
Company F	NA
Company G	Went from 6% in 1999 to 4.5% in 2003, but in property lines does not have as significant an effect as auto due to fast payouts Insignificant impact
Company H	Personal Property: Investment yield is about 4.5% and is reflected in property rates Commercial: Use CGI
Company I	Investment income allocated to Nova Scotia business averages 11-12.5% Have adjusted projected investment returns for pricing purposes due to decrease in returns
Company J	15%
Company K	Targeted rate level takes investment returns into account Liability coverages mostly affected—property claims settled faster Last 5 years declining investment returns mitigate impact on rates
Company L	Has not influenced rates Mostly paid by payroll or bank deductions
Company M	NA
Company N	Quotes OSFI report Conservative investments Investment portfolios have declined
Company O	Target investment built into rates, if actuals differ, profitability is affected

VOLUNTEER FIRE DEPARTMENTS

Question 1	**What statistical information is available to support the high increase in premiums of some volunteer fire departments? What makes voluntary fire departments a high-risk organization that warrants high premiums?**
Company A	Have not written
Company B	Not written
Company C	Do not insure
Company D	Increased claim activity (no data provided)
Company E	Have never written fire department liability Do write fire department property and premises liability—higher than normal risk due to performance issues Claims or potential claims where greater damage to property caused than necessary in fighting fire Have refrained from pursuing actions against volunteer fire departments
Company F	NA
Company G	Do not normally write
Company H	Do not normally write Allegations of negligence fighting fires
Company I	Liability issues related to suits arising from inability to respond in time, inability of equipment to respond when required, and re-ignition of fire once department has left Additional risks: operation of sports fields, exhibitions, fairs, etc., beer gardens New Brunswick, master insurance policy
Company J	Influences targeted loss ratio and to date has had minimal impact
Company K	SIC codes and IBC stats Do not write
Company L	NA
Company M	NA
Company N	Historically thinly priced Claims and litigation trends risen Exposures broader than when policies originally written Involved in fundraising and special events, enhanced emergency response services Volunteer members required to be more technically proficient Non-owned auto coverage also greater concern (used to respond) Looked at with municipalities, code 894 and 895. Did not receive higher increase than book of business
Company O	Not applicable to Personal Property Has never written

Question 2	**If volunteer fire departments are no longer able to operate due to high insurance premiums, how would this affect your ability to provide personal and commercial property insurance to rural communities? Is this possibility of concern to you? What actions, if any, have you taken to address this possibility? Do you believe that the insurance industry has a duty to insure homes in rural Canada? Please explain your answer.**
Company A	Would curtail writings in rural areas and limits would be severely restricted
Company B	Would be a concern and would most likely affect willingness to insure rural properties, or at least impact premiums
Company C	NA
Company D	NA
Company E	Problem is the failure of municipalities to provide fire protection No difficulty for towns and cities to obtain insurance Loss of volunteer fire departments could result in rate increases
Company F	NA
Company G	Degree of acceptance and rating would be affected
Company H	Ability to write not affected, though capacity might be Obligation to insure anywhere they can assess the risk and expect reasonable return to shareholder
Company I	NA
Company J	Insure unprotected areas
Company K	Have rate classifications for unprotected risks Important for all Canadians to have access to insurance Atlantic Regional office has specific local segment focus on rural commercial risks
Company L	Have acceptance and rate criteria for unprotected risks
Company M	NA
Company N	Will insure unprotected areas at higher rates Insures a number of volunteer fire departments, and coverage is available through a local program and a limited number of other insurers Volunteer fire departments are very important, that is why they remain in the market
Company O	Rates would increase Insurance industry should not be bound to offer coverage in rural Canada, but companies do due to market pressure Requires different underwriting expertise

NON-PROFIT SECTOR

Question 1	**How do you set the rates and premiums for non-profit organizations? Are non-profits treated as a separate rating classification for commercial property or commercial liability? What has been the claim experience for this sector in Nova Scotia?**
Company A	Commercial property: Same as commercial Write legions, churches, sporting organizations, youth, and festivals Loss ratio 2003 was 78% excluding expenses
Company B	Not written
Company C	NA, do not insure
Company D	NA
Company E	Same as commercial
Company F	NA
Company G	Written as commercial – same criteria
Company H	Use IAO Claims experience unknown
Company I	As per commercial rates Look at organizations' activities
Company J	No information available
Company K	Based on loss cost data, depending on activities of the organization Various categories; e.g., social counseling, senior care homes, day cares, nurseries, educational institutions
Company L	NA
Company M	Like any other commercial risk Not target market
Company N	Based on actuarial statistics for industry classification and then modified by underwriter looking at nature and track record of individual risk No claims experience data for Nova Scotia
Company O	Same as other commercial risks CGI rates are discounted or surcharged based on individual operation of the client Factors, revenues, number of club members, number and type of events Cannot state claims experience

Question 2	**Do you consider the non-profit sector an important part of Canadian society? Are you aware that volunteer organizations have ceased operations and others are threatened by the unavailability of insurance at affordable rates? Do you have any suggestions to alleviate this problem?**
Company A	Yes, if losses call for high premiums, insurance industry and government can work to develop effective risk management program
Company B	Not written
Company C	Yes
Company D	Yes, suggest legislation protecting non-profits, e.g., responsible only for gross negligence
Company E	Yes, do not use minimum premiums so that small non-profits do not pay more that they should Government and courts must limit claims
Company F	NA
Company G	Critical for society
Company H	Yes Working with IBC Cannot comment on affordability of this sector
Company I	Yes Since 1995 gave $290,000 to Nova Scotia charities and organizations
Company J	Have not received any information to support statement that non-profits threatened by unavailability and unaffordable rates
Company K	Yes Tort reform or change in social policy to reduce claims costs, e.g., if socially unacceptable to sue a non-profit, or only if grossly negligent Increase in frequency and severity of claims is at the root of liability insurance premiums Organizations liable for criminal acts of volunteers — need social safety net for victims of criminal injuries Work with IBC and brokers and non-profit representatives to identify what is driving the issues Offer D & O
Company L	NA
Company M	NA
Company N	Absolutely. Availability not issue, but cost Recommendations: • careful screening of volunteers • acceptable condition and maintenance program for buildings, recreational spaces, and loss prevention program • written mandate and personnel policy and procedures to ensure prudent operation and clear understanding of roles of organization and volunteers If alcoholic beverages served, ensure servers are trained in safe server policies Ensure money-handling procedures in place If operating in conjunction with municipality, explore coverage under their policy
Company O	Very important Recommend tort reform to protect volunteer organizations

Question 3	**Would it be possible for the insurance industry to share the risks with respect to non-profit organizations on a different basis than is currently practiced, such as a program similar to the Facility Association?**
Company A	Yes, possible
Company B	Not written
Company C	May be possible
Company D	May be possible
Company E	Yes, but will not lower rates
Company F	NA
Company G	Only work if subsidized by government, as only high risks would look at it
Company H	Markets do exist to write these risks, some of which are pools
Company I	NA
Company J	Would address availability, not affordability
Company K	Does not address underlying issue of claims costs Association will face same costs issue
Company L	NA
Company M	NA
Company N	Possible, but not sure it would mean premium cost savings
Company O	Theoretically possible

Question 4	**Insurance has become a major portion of the budget of many non-profit organizations. Volunteers are disheartened when huge percentages of their fundraising efforts are used to pay insurance premiums, rather than to provide services. Would it be viable to charge premiums based upon an organization's revenue and a predetermined risk classification, for example, low, medium, or high risk? Do you have any other suggestions to alleviate this problem?**
Company A	No, risk must be based on merits of the organization
Company B	Not written
Company C	May be possible
Company D	Could be viable, but suggest limiting liability
Company E	Charge on a per risk basis; premium reflects size of the organization and risk factors involved. Each risk presents a minimum hazard, and there must be enough money in the pool to pay for loss
Company F	NA
Company G	Exposure to loss the key Liquor liability and public participation in fund raising are higher hazard concerns
Company H	Not a major market for them Charge premiums based on operating budgets and exposure characteristics, subject to min. premiums
Company I	NA
Company J	"No. Risks have to be underwritten on their own exposures."
Company K	Does not address exposure which differs regardless of revenues
Company L	NA
Company M	NA
Company N	Suggests industry be more philanthropic
Company O	See above

OIL TANKS

Question 1	**What is the difference in risk between a new oil tank installed indoors vs. one that is installed outdoors? What is this view based on? Do you use age criteria in assessing the risk presented by an oil tank? If so, specify. What is the difference in risk between steel and fibreglass oil tanks? What is this view based on? How is the existence of oil tanks (by type; indoor vs. outdoor) reflected in underwriting and rates that you charge?**
Company A	Personal Property: All studies show fuel tanks deteriorate from the inside, and it is not possible to complete an inspection that will provide estimate of remaining life expectancy Policy excludes pollution, but will remove, subject to satisfactory inspection and additional premium Commercial: Generally require a dyke. Preference is fibreglass—longer life expectancy and not subject to rust and corrosion
Company B	Outdoor tank subject to harsher elements that can affect lifespan and is more exposed to physical perils. In-ground present greater risk as leakage not noticeable and can continue for a long time without detection Age and type used as eligibility criteria 10 years outdoor and 15 years indoor Steel tanks corrode from inside, fibreglass do not No age criteria for fibreglass Have surcharge for oil heat, which can be removed if approved containment system is in place
Company C	NA
Company D	Indoor tanks: Not susceptible to weather, but be careful of drain in room Outdoor: Problem with vehicles backing into them, especially where no vehicle guard Yes, use age as criteria Steel tanks and piping corrode; fibreglass, if not installed correctly, cracks Weather extremes can cause fibreglass to crack Tanks rated on size, contents, age, construction, protection, method of inventory control, spill protection, above or underground Indoors or outdoors has minimal bearing
Company E	Outside tank more at risk due to falling snow and ice, rust, vandalism, and uneven footing surface No difference in premium. Tanks must be replaced at 15 years unless they have a longer warranty Currently studying various tanks and initial conclusion is fibreglass are superior
Company F	NA
Company G	Outdoor tanks exposed to vehicle damage and natural elements 25 years max. lifespan Do not write tanks that are more than 25 years Surcharge tanks more than 20 years by 25% No stats on fibreglass tanks, treated equally

Company H	Personal Property: Additional exposures for exterior installations, frost heave, vandalism, falling objects, vehicle impact Maximum age of tank is 15 years for exterior and 20 years for interior 5% discount for indoor No underwriting difference between steel and fibreglass Does not address supply line risk
Company I	Not acceptable is greater than 20 years outside or greater than 15 years if indoors 10 years if outdoors on new business only Double walled, stainless steel, or fibreglass may be acceptable for longer, depending on manufacturer's warranty Loop in line and a line cover, very important
Company J	Domestic tanks recommended to be installed indoors: Poured concrete basement floor best option for strong , stable, and solid base for tank Early detection more likely due to odours Outside tank subjected to elements—reduced life, higher maintenance, and greater likelihood of leak Inside not subject to frozen product lines; better performance due to constant temp View based on extensive research and loss experience Outside, above ground: 20 years Inside: 25 years Steel vs. fibreglass not part of criteria If tank acceptable, surcharge due to existence of fuel oil tank
Company K	Outdoor exposed to damage by vehicle impact or falling ice, also to weather If there is a leak, outdoor more likely to enter ground Indoor leaks identified earlier 2003 study • 2/3 of residential oil tank losses are outside tanks • Indoor leaks, minimum age of tank 17 years • 47% outdoor leaks, tank is less than 11 years old • 42% of indoor leaks are line leaks Require tank inspection and replacement at 15 years for indoors and 10 years outside Fibreglass not subject to corrosion but subject to deterioration (separation of layers); may be more susceptible to collision Do not charge different rates due to presence of oil tanks
Company L	Inside tanks have longer life due to weather and accidental line damage Outside tanks tend to create more damage to neighbouring property Fibreglass do not have long history—do not corrode, but questions of fire resistance, deterioration, and impact damage Age used to determine when to inspect a tank

Company M	Commercial: No specific action
Company N	Outdoor tanks have greater exposure to elements
	Containment of leak difficult, goes directly into ground
	Indoor tanks do not wear as quickly, and concrete basement mitigates leakage into ground
	Outdoor
	12 gauge, 15 years
	11 gauge, 10 years
	fibreglass, 15 years
	Indoor
	12 gauge, 25 years
	11 gauge, 20 years
	fibreglass, 25 years
	Currently do not differentiate premium
Company O	Only recently has tracked this information
	Will not write where tank more than 15 years
	No research on fibreglass tanks
	Considers indoor vs. outdoor as anecdotal only

Question 2	**Do you believe that there should be regulations regarding the installation and inspection of oil tanks? If yes, what regulations would you like to see enacted?**
Company A	Yes, annual inspections including protection of connections, supply lines, and structural integrity and mandatory replacement at determined age
Company B	Yes, regulation on both installation and inspection of oil tanks, licensing of installation personnel, etc.
Company C	Yes
Company D	Yes, along lines of Ontario Only trained certified contractors allowed to install tanks Tanks and piping should be tested for leaks after installation and before each fill
Company E	Believe it is the responsibility for government to assess, rate, and regulate the construction of oil tanks. Yes, PEI legislation is a good starting point
Company F	NA
Company G	Yes, PEI approach
Company H	Yes, PEI
Company I	Yes, regulate location, installation, age, and materials for tank construction and prohibiting refueling of deficient systems
Company J	Yes, Newfoundland Recommend 12 gauge steel as standard
Company K	Yes, design, installation, inspection, maintenance, removal, service, and filling Minimum uniform training, qualification, examination, and certification standards to be developed by stakeholders
Company L	Yes
Company M	NA
Company N	Yes
Company O	Do not want to see pricing or underwriting controls More regulation of oil industry is required Newfoundland Environmental Protection Act would be helpful (re Heating Oil Storage Tank Systems) Recommend banning of underground tanks

Question 3	**Do you think that insurers should be required to accept a risk with an oil tank so long as the tank had received approval by a certified inspector?**
Company A	Fundamentally no, but could be yes if regulations, certification, etc., are acceptable
Company B	Not in all cases, e.g., changes since inspected
Company C	Yes
Company D	Would be added assurance
Company E	Yes, as long as inspector is accredited by third party and carries professional liability insurance
Company F	NA
Company G	Provided process was "robust and appropriate," yes
Company H	Yes, subject to quality of certification process of inspector
Company I	NA
Company J	Depends on criteria and certification process of inspector
Company K	Yes, if entire system and regulation is acceptable to them
Company L	No, unless certainty of credentials, qualifications
Company M	NA
Company N	If insurer's standard is met, this would be redundant
Company O	No, unless inspector assumes liability

COMMUNICATIONS WITH INSUREDS AND BROKERS/AGENTS

Question 1	**Poor communication or the failure to communicate either on a timely basis or at all has been a repeated concern of insureds. Some insureds with mortgages or business assets have reported receiving only two weeks' notice that their insurance will not be renewed, which puts them at risk of possible mortgage foreclosure or ceasing their operations.**
Question 2	**What is your company's policy on communicating reasons for non-renewal or reasons for large rate increases? What is told to insureds and how much notice is given?**

Company A	Personal Property: Generally through broker Commercial: Generally if want to be removed from a risk, will extend coverage
Company B	50-60 days prior to non-renewal would send notice including reason for same Generally do not provide customer with reasons for increases, but do provide to agents
Company C	NA
Company D	Communicate with broker At least 60 days' notice
Company E	Follow statutory conditions for cancellation and IBC guidelines of 30 days' for notice of non-renewal Communicate through the broker. Large increases are experience-based or due to change in risk that broker and insured are aware of; any reasons communicated are with the broker
Company F	NA
Company G	Underwriters to convey reasons to broker Bulletin for rate changes and rationale
Company H	Personal Property: Rate changes communicated to broker at least 60 days prior Renewal sent to broker 45 days prior Non-renewal sent 30 days prior If rate change for other than base rate, then reason communicated to broker Commercial: Through broker Sent as soon as facts known
Company I	In last 2 years have included reason for cancellation and non-renewal in letter to client In non-renewal, minimum 30 days' notice Commercial: Minimum 34 days' notice for renewal Minimum 30 days on non-renewal
Company J	Communication is through broker Non-renewal/or varied renewal: minimum 30 days' notice
Company K	Broker/company agreement; broker must communicate non-renewal or reason for large increase May attach notice where change is en masse
Company L	Non-renewal generally communicated 30 days prior, but very few are non-renewed Communicate renewals 45-60 days prior
Company M	Communicate large increases or many non-renewals Give adequate time to make other arrangements when non-renewal occurs

Company N	Commercial: Reasons provided to broker
	Rely on brokers
	Notice to broker minimum 45 days, more for larger accounts
	Also give extensions to facilitate remarketing
	Personal Property: as above, strive for 45-60 days' notice
	Brokers communicate reason for large increases
Company O	Communicate reasons to broker
	Non-renewal: 45 days, but at times 30 days when trying to retain account
	Renewals: 45 days

Question 3	**Do you agree that some of the frustration experienced by insureds would be reduced if insurers gave more notice? How much notice can your company provide in the case of non-renewals or large premium increases? When you deny or fail to renew insurance are you prepared to give reasons? If not, why not? If you do renew with a large increase in premium are you prepared to explain and justify the reasons for the increase to the insured?**
Company A	Start renewal process at 45 days If non-renewal, broker notified 30 days prior, but will generally extend for 15-30 days Commercial: Do not communicate with insured; provide answers through the broker; generally will extend coverage to allow arrangement of alternative coverage
Company B	See above
Company C	Generally respond within 2 weeks of receipt of information from broker Generally do not non-renew; if so, give 90 days prior notice or longer with full explanation why Frequently explain premiums in face-to-face meetings
Company D	Could provide 60-90 days, but information used to assess risk not always provided on a timely basis Communication is with broker
Company E	30 days Broker is aware of reasons for non-renewal, and, if not, this is communicated to them unless violates confidentiality Justification is difficult when an increase is due to the results of a class of business rather than individual client
Company F	NA
Company G	Comfortable with their communication
Company H	No, do not think time line is a factor; 30-60 days is sufficient time Personal Property: 60 days is max. Commercial: Give extensions to allow broker to remarket Yes, prepared to explain and justify reasons for increases
Company I	NA
Company J	30 days minimum Reasons given, and will explain reasons for increase within reason "We have equal frustration securing information too."
Company K	45-60 days Reasons for non-renewal provided to broker Customer Information Centre and complaint escalation process
Company L	Good business to provide renewals as early as possible 30 days sufficient for non-renewals Large rate increases subjective and do not warrant notice because insured can go to free market
Company M	Commercial: Adequate time Normally prepared to explain actions where negatively affect a particular file

Company N	As above Will give reasons Broker will explain large increase
Company O	May have been problems when trying to implement rebate, but not normally a problem Explain reasons for increases to brokers and sometimes send notices explaining increases to policyholder, e.g., due to claims, no longer new home discount, etc. Do not send notice that rates in a given territory have increased by a particular percentage Commercial: Above generally applies Personal consultation with broker

Question 4	**Is there a way for your insureds to check to be sure that his/her premium properly reflects his/her particular risk characteristics, has been calculated accurately, and fully reflects all of the discounts that he/she is entitled to?**
Company A	Provide rating information on declaration page, plus broker Same for commercial and personal lines
Company B	Discuss with agent
Company C	Talk to other consumers
Company D	Through broker
Company E	Through broker
Company F	NA
Company G	With broker
Company H	With broker
Company I	NA
Company J	Most information on renewal form Broker should provide service
Company K	Broker to explain Broker to take up with underwriter Insured may examine his/her file at office, per privacy policy brochure New policy declaration pages—clear—set out discounts included and which may be available
Company L	Review with service supervisor
Company M	Broker Policy jacket directs insured on what to do
Company N	Personal Property: Through broker Commercial: Not possible other than to ask broker to confirm information is correct
Company O	List discounts that apply on billing and coverage summary Ask client to verify information Commercial: No discounts, consult with broker

Question 5	**If an insured complains that an error has been made on his/her application or record, what mechanism do you have to immediately correct the information? The Board has heard from numerous individuals who have tried to get assistance through their broker to address such problems, and there appears to be no avenue for insureds to seek redress in a timely fashion. Offer suggestions as to how this matter can be remedied.**
Company A	Through broker, set out in agency agreement, Complaints are regarding the broker Possible solution is complaint position, perhaps within IBANS or IBC
Company B	Contact agent or company ombudsman or use website
Company C	Never experienced this problem
Company D	Response given promptly and correction made ASAP
Company E	If own error, will inform appropriate body, if government or prior company, will direct individual to have it corrected Welcome better or easier way to fix this problem
Company F	NA
Company G	Individual to provide documentation Individual—approach to prior broker/insurer Customer Service Department
Company H	Through broker Company ombudsman
Company I	NA
Company J	Escalation protocol and ombudsman's office
Company K	Broker, and as above
Company L	Address issues when made aware of them
Company M	NA
Company N	Privacy policy—sets out rights and processes for clients
Company O	Work with brokers and clients Integrity

Question 6	**What sessions or meetings and other communications do you have with brokers or agents to inform them of legislation such as the Heritage Property Act, the Occupational Health and Safety Act, the Occupiers' Liability Act and the Volunteer Protection Act?**
Company A	Do not have any
Company B	Corporate intranet site and monthly agents' meeting
Company C	None
Company D	Brokers expected to keep themselves aware
Company E	Do not have any Inform brokers of matters relating to company only and discuss industry trends and changes Recommend this be done through IBANS
Company F	NA
Company G	Bulletins, communications, town hall broker meetings, calls, and broker visits
Company H	Available through broker trade associations, publications, and meetings
Company I	NA
Company J	As required
Company K	Periodic bulletins Broker training schools Marketing Dept. to maintain face-to-face contact with brokers and provide training Broker intranet
Company L	Two sessions per year with entire staff and communicate through intranet
Company M	None on legislation mentioned
Company N	Hold educational broker sessions generally and have covered areas relating to heritage properties and general liability seminars
Company O	Group sessions or information sent

INSPECTORS/ADJUSTERS/LOSS CONTROL

Question 1	**The Board has heard a number of complaints about the qualifications of insurance company inspectors and to a lesser extent, adjusters. What training and qualifications are required by your company? How is this monitored? Are you aware of any initiatives by insurers to set professional standards for its inspectors and adjusters? Would this be a reasonable course?**
Company A	Use outside contractors No formal qualifications Follow up on complaints Commercial: As above
Company B	"Over the years we have experienced some problems with inspectors and inspections from industry vendors." Will now be using own company inspectors with internally established training and qualifications (formerly property adjusters)
Company C	Use qualified outside vendors for both Appointments vetted by Claims and Loss Control Dept
Company D	Use independent licensed adjusters from an approved list Unaware of any effort to set standards; worthwhile if all stakeholders involved
Company E	Use an independent firm, which has licensed electricians, WETT certified and experienced in general construction techniques and basic National Building Code requirements Monitor firm by quality of their work Would welcome reasonable standards set for this line of business Adjusters meet standards set by Superintendent of Insurance
Company F	NA
Company G	Internal Staff + CGI Personal Property: use third party inspectors—IAO Sentinel for older, high value, or woodstove dwellings Unaware of complaints As above—in-house and external training
Company H	Use inspection company WETT for woodstove Commercial: Central training and "team room" for technical dialogue Professional standards not necessary, they merely assess
Company I	NA
Company J	We believe all our staff to be well qualified
Company K	Personal Property: Use outside professional inspection services, e.g., CGI Commercial: Loss control engineers with comprehensive loss prevention/loss control knowledge and also independent contractors Post-secondary education in engineering discipline or equivalency Chartered Insurance Professional or Certified Risk Manager designations with IIC Extensive training and development program, including IAO School of Loss Control Technology, 30 hours technical training annually; quarterly engineering and safety professional development Adjusters—CIP program, minimum 5years' experience, and specified courses Encourage CIP and FCIP programs
Company L	Inspectors have credentials adequate to perform job Regular training

Company M	Awaiting answer from branch office
Company N	Have three commercial and three personal loss prevention specialists
	Conduct surveys to identify potential causes of loss and make recommendations to improve safety
	Act as resources to underwriters; focus, problem solving
	Sometimes use CGI
Company O	10 years' experience inspecting homes and 15+years in insurance industry
	Certified and participate in WETT
	Broker council meetings to discuss service, not aware of any problems
	Adjuster must have college diploma, university degree, or insurance designation
	Schools and training seminars on a national and provincial level to ensure consistency and skill set

Question 2	**What loss control systems has your firm adopted?**
Company A	Personal Property: none Commercial -- Use CGI
Company B	Personal Property: Several automated risk quality filtering systems that identify specific conditions for underwriting review Formalized identification, analysis and reporting system for large losses Audit function to review property risks Special Investigation Unit re complicated claims
Company C	As above
Company D	Have Risk Control System to assess risk and assist customer to improve risk Loss avoidance, prevention, and reduction
Company E	Do previous experience reports in personal lines and inspections and credit checks in both personal and commercial Inspections in personal lines are random Inspect all individual commercially rated risks
Company F	NA
Company G	Commercial: Guidelines intended to verify information from broker and supplement level of detail about the operation Survey results and expectations laid out to insured Loss control reports on exceptional management and loss prevention practices, which underwriter takes into account in risk quality and in assessment
Company H	Personal Property: Third party vendors who are recognized providers of insurance information Commercial: Own loss control reps or CGI
Company I	Agents do majority of inspections using industry standard cost guides Use CSA B365 for wood heat and CSA B139 for oil heat Use National Building Codes of Canada Commercial: There is no professional designation; there are various courses related to insurance-based inspections or surveys Specialty courses through IAO and Chartered Insurance Professional (CIP) program Use CIP recommendation in job description; in-house training to understand building construction detail, electrical components, heating systems, etc.
Company J	Commercial: Use CGI, except for farms
Company K	Personal Property: Not applicable Commercial: Surveyed, and average resurvey is three years Reports, proprietary format looks at property and liability
Company L	Loss control system in effect for 20 years Believe that assessing and preventing a loss before it occurs should be an obligation
Company M	NA
Company N	As above
Company O	Generally, underwriting manuals, guidelines and rules

HIGH RISK GEOGRAPHIC AREAS

Question 1	**The Board has heard of geographic areas being designated as high risk. Often this is referred to a postal code rating. What does this mean? Does your company employ this method of assessing risk? If so, how? What areas in Nova Scotia are deemed high risk? For what reasons? Do you have supporting statistics? If so, provide such statistics.**
Company A	Use for defining territories Higher risk depends on peril Rating process assesses overall exposure, all perils, of each postal code and assigns relative risk factor Has less than 20 territories by product Commercial Individually assess risks
Company B	Do not have any areas designated high risk Use eight territories; premiums based on historical loss results
Company C	Define high-risk areas by earthquake zones Nova Scotia is not high risk
Company D	Usually related to flood, earthquake, windstorm, or hail
Company E	Postal codes used to monitor volume in a certain area; areas with serious economic difficulties are considered higher risk Normally monitor this through loss ratios of brokers in the area There is no base rating difference in personal property, but risks are more likely to be inspected or credit checks done When economy is poor and money tight, routine or expensive maintenance of properties is too often put off until a claim occurs
Company F	NA
Company G	Used to establish six territories in personal lines No postal code rating for commercial
Company H	Four territories: Metro Halifax, Annapolis and South Shore, Cape Breton, and rest of mainland Commercial: Do not rate by postal code but use experience in area, e.g., many break and enters
Company I	Yes, rates associated with a town grade are adjusted based on loss experience Write in all areas and base assessment on individual risks
Company J	Do not use
Company K	Personal Property: No designated "high risk" areas but some areas do present increased risks Commercial: No postal codes designated high risk but use Fire Underwriters Survey (level of fire protection in a municipality) and Quake Cresta zones Some areas of Nova Scotia are "unprotected" for fire No earthquake additional loading in Nova Scotia
Company L	NA
Company M	NA
Company N	Commercial: Not used, but underwriters watch "trends," e.g., rash of burglary claims in an area Use geographic rating based on municipality for all risk and crime coverage Higher areas due to frequency, higher theft area, low quality building, higher criminality Personal Property: Uses FSA based on experience
Company O	Do not use postal code rating in Nova Scotia It is the use of first three digits of postal code to define area instead of using a territory to rate based on expected differences

DISPUTE RESOLUTION

Question 1	**Would you agree to mediation or some alternate binding dispute resolution mechanism for such matters as house repairs, automobile repairs, oil tank disputes, rectification of errors on an insured's file, and any other such areas of disagreement? If not, indicate why not.**
Company A	Obligation to react quickly to unsafe conditions that may require suspension or cancellation of coverage until rectified Broker should be dispute resolution mechanism
Company B	Prefer to avoid Binding decision might put them in position of insuring risk that would not be done for another customer, or for which they have not developed rates Also, substantial additional costs
Company C	Not applicable for commercial property
Company D	Would agree Would also agree that it be binding if mediators were jointly selected
Company E	Yes, in principle; would have to see kind of resolution system
Company F	NA
Company G	Has own ombudsman How would individual be affected if mediator upheld company position?
Company H	Complies with FCAC to have independent dispute resolution mechanism and ombudsman
Company I	NA
Company J	No, would not agree to any form of binding dispute resolution
Company K	Only agree to mediation for home repairs, auto repairs and oil tanks Prefer courts to binding dispute mechanism
Company L	Yes
Company M	Awaiting Branch Office reply
Company N	Currently there are binding statutory conditions to resolve property damage issues; company supports this as part of the claims settlement process Error rectification as per Privacy Policy
Company O	Uncertain; may be in favour of a mediation process, but not binding arbitration

CONSISTENCY IN INDUSTRY STANDARDS

Question 1	**Are you aware of any initiatives on the part of insurance companies to set insurability standards for such things as heating systems (oil tanks, coal, and wood stoves in particular), electrical systems, plumbing systems, and risk management practices in general? If so, what are they? How are consumers made aware of these standards?**
Company A	Personal Property: Companies set own program No effort to standardize Commercial: Professional trades people use codes and regulations
Company B	Most companies have specific eligibility requirements Consumers made aware of them when they seek insurance Media and IBC publishing articles
Company C	No
Company D	Standards set by industry, e.g., CSA Unaware of standards for risk management practices
Company E	Follow CAS, ULC, or National Building Code to determine risk, physical acceptability Would like Nova Scotia to set oil tank standards See no need for additional standards Other standards, such as housekeeping, would be difficult to set
Company F	NA
Company G	Provincial standards, e.g., building code, by-laws Broker makes consumer aware of standards, letter accompanying renewal
Company H	Some are tested through the Underwriters Laboratory of Canada and CSA
Company I	NA
Company J	Most decisions made at company level, not industry Credible research would result in similar findings, likely to see comparable guidelines IBC makes some recommendations Consumers made aware by brokers
Company K	Personal Property: No Commercial: Yes, e.g., ISO and construction standards
Company L	No
Company M	IBC, follow their lead
Company N	Have been proactive in educating clients re oil tanks, solid fuel burning devices, plumbing systems, crime prevention, and risk management IBC also has some educational campaigns
Company O	No Each company has individual underwriting standards Different tolerances for risk Competition Act??

DISABLED PERSONS

Question 1	**To what extent do you consider a person's disabilities in premium determination? To what extent do you consider a person's disabilities in risk selection? What statistics or other information do you have to support any special rating or underwriting treatment?**
Company A	Do not generally consider Application does not ask If insured requests an amendment for specific situation, will underwrite if acceptable and may have additional premium Commercial: Do not obtain information, If aware of employee with disability that could increase exposure, underwrite accordingly
Company B	Do not consider
Company C	Not applicable for commercial property
Company D	NA
Company E	Do not ask any questions relating to disabilities If through inspection, become aware of any hazard that would not normally be in a home, such as an elevator, may charge for that No policy, never been a problem Not aware of any market in Maritimes that has different rates or standards for persons with disabilities
Company F	NA
Company G	No impact
Company H	No consideration re premium or risk, but for property insurance, additional equipment increasing value or cost to repair is considered in setting value
Company I	NA
Company J	Not collected
Company K	Do not consider
Company L	Do not consider
Company M	Do not consider
Company N	Do not consider
Company O	Do not consider

Question 2	**Has your company ever had a surcharge related to any disability? If so, explain.**
Company A	No
Company B	Never
Company C	NA
Company D	NA
Company E	Never
Company F	NA
Company G	Never
Company H	Never
Company I	NA
Company J	Never
Company K	Never
Company L	Never
Company M	NA
Company N	Never
Company O	Never

PRIVACY

Question 1	**To what extent is information about an insured shared among companies, and how is this sharing of information done; what is this information stored?**
Company A	Personal Property: Provide claims experience to CGI for HITS and use HITS Commercial Property follow the Personal Information for Printed and Electronic Documents Act (PIPEDA) and supply data to CGI
Company B	Prior loss activity found on HITS
Company C	Information is not shared
Company D	Not shared
Company E	All information shared is PIPEDA compliant
Company F	NA
Company G	Unless requested by insured, not shared with any company, except re financial interests named on policy, e.g., mortgagee, lien holder
Company H	In accordance with PIPEDA Shares information with government agencies, brokers, agents, insurers, and insurance reporting agencies and credit bureaus to verify information provided Claims experience is provided to industry reporting agencies as required or authorized by law
Company I	Complies with (PIPEDA)—federal legislation
Company J	HITS database Would confirm data in accordance with PIPEDA
Company K	Basic policy information to IBC: insured name, risk location, and loss history IBC passes selected information to CGI for industry data service for property policies (HITS); subscribing companies can access HITS for underwriting purposes—e.g., to verify customer information Insurer may call another insurer to verify claims information Privacy Policy addresses this sharing of information—Identified Purposes section
Company L	HITS and follow requirements of PIPEDA
Company M	Follow guidelines set out by counsel
Company N	Use CGI services, prior claims history, credit information Comply with PIPEDA
Company O	HITS Name, address of loss, date of loss, policy number, insurer, type of loss, expenses, and losses paid Fraudulent claims reported to ICPB (Insurance and Crime Prevention Bureau)

SOLUTIONS

Question 1	**Do you believe there is an insurance affordability or availability problem in Nova Scotia for, at least, certain types of risks? If so, which risks?**
Company A	No doubt that there has been an insurance affordability and availability problem in Nova Scotia for certain types of risks—and always is, for certain risks Risk accepted within comfort zone and no insurer accepts all risks The greater the risk, the greater the premium
Company B	Not aware of any problem in personal property
Company C	No
Company D	National in scope
Company E	Have not seen an affordability nor availability problem in personal property Some companies may have created underwriting problems, but others appear to be placing those risks "There are certainly many areas where there is difficulty in obtaining reasonably priced insurance. Too many products are now the exclusive domains of specialty markets that offer cover at high minimum premiums. Parks, playgrounds, sports teams, fitness centers or any other athletic facilities, in particular where they involve young people, fall into this category. In addition there is difficulty with facilities for youth, youth groups and similar organizations."
Company F	NA
Company G	No availability problem Affordability seems to be issue, but premium reflects claims costs and associated risk factors
Company H	No
Company I	NA
Company J	Is it real or perceived?
Company K	Personal Property: Unaware of any affordability problem Availability problem restricted to customers who fail to maintain premises Commercial: Not aware of any
Company L	Not for Personal Property
Company M	Branch to reply
Company N	Availability is not an issue Various opinions re acceptable pricing level for a particular risk Supports stability in pricing
Company O	No Insurance still affordable Have not attempted to reduce writings

Question 2	**What actions do you suggest the Board recommend to the Government to address any such problems?**
Company A	Cyclical, supply and demand Are markets that cater to higher risk, perhaps more publicity Risk pooling, as last resort Class action suits, contingency legal fees, and legal advertising have contributed to "unreasonable expectation of entitlement" Tort reform
Company B	NA
Company C	None
Company D	Legislation to protect non-profit volunteer organizations Strictly enforced industry standards such as heating, electrical, and plumbing systems
Company E	Rates and product availability are a reflection of the problem, not the root. Government and industry must work together to identify root causes and seek solutions. Examples: Personal Property • oil tank construction, installation and maintenance regulations • work with municipalities on proper separation of storm and sanitary sewers to reduce sewer back-ups • enforce National Building Code (NBC) regulations for backup valves • enforce NBC regulations for installation of wood heat devices and chimneys • ensure proper fire and life safety inspection of housing Commercial Property and Liability • limit availability of contingency fees • limit responsibility of host liquor to a reasonable standard • ensure courts enforce and respect waivers and do not alter policy limitations or exclusions that have been agreed with the insured. • ensure courts take a firm stance against fraud The insurance industry must treat consumers fairly and should establish a code of conduct for its members, to restore consumer confidence Public must realize that someone has to pay for the claims and to take responsibility for their actions
Company F	NA
Company G	Casualty claims and liability is the issue Support IBC submission
Company H	None
Company I	NA
Company J	Board should look beyond one year; most problems self-correct due to competition and fractured nature of insurance industry

Company K	Government regulation re oil tanks Loan arrangement from government for major repairs Commercial: Encourage the Board to spend time to understand insurance industry without preconceived ideas—can help with risk engineering, tort reforms, legal responsibility, and negligence
Company L	No justification for reviewing personal property
Company M	NA
Company N	Take time to understand dynamics of industry and drivers of pricing, claims inflation, and market availability Work with industry on issues that affect insurance—e.g., oil tanks—to ensure more consistent, loss prevention–focused approach Be tougher on fire and safety compliance; e.g., require restaurants to provide annual confirmation that cooking equipment maintenance and cleaning meets code
Company O	Though rates have increased due to poor loss results over last 5 years, the marketplace is strong and no availability issue Rates not excessive and poor results dictate that rates increase Recommend free and competitive market, otherwisesome insurers might leave

Appendix-Exhibit 10 - Insurance Companies That Were Interviewed

Date	Company / Association
July 29, 2004	The Dominion
July 29, 2004	Economical
July 29, 2004	Portage Mutual
July 29, 2004	Antigonish Farmer's Mutual
July 30, 2004	Royal & SunAlliance
July 30, 2004	Aviva
August 10, 2004	ING
August 18, 2004	Insurance Brokers Association of Nova Scotia
August 18, 2004	Insurance Bureau of Canada

Appendix-Exhibit 11 - General Agent Questionnaire

Commercial Property & Liability

1. What types of commercial risks do you insure in Nova Scotia? (Please check appropriate boxes.)

	Property	Liability
legions (wet)	☐	☐
legions (dry)	☐	☐
bars & taverns	☐	☐
volunteer fire departments	☐	☐
sports & recreation	☐	☐
trail associations	☐	☐
boating (incl. canoeing, kayaking)	☐	☐
festivals & events	☐	☐
youth related non-profit organizations	☐	☐
other non-profit organizations (specify)	☐	☐

2. For those of the above risks that you insure, what was your approximate Nova Scotia written premium in each of the following years?

	Property			
	2000	2001	2002	2003
legions (wet)				
legions (dry)				
bars & taverns				
volunteer fire departments				
sports & recreation				
trail associations				
boating (incl. canoeing, kayaking)				
festivals & events				
youth related non-profit organizations				
other non-profit organizations (specify)				

Liability				
	2000	2001	2002	2003
legions (wet)				
legions (dry)				
bars & taverns				
volunteer fire departments				
sports & recreation				
trail associations				
boating (incl. canoeing, kayaking)				
festivals & events				
youth related non-profit organizations				
other non-profit organizations (specify)				

3. Do you require a minimum annual premium for the types of risks identified above? If so, what is the minimum premium?

	Property	Liability
legions (wet)		
legions (dry)		
bars & taverns		
volunteer fire departments		
sports & recreation		
trail associations		
boating (incl. canoeing, kayaking)		
festivals & events		
youth related non-profit organizations		
other non-profit organizations (specify)		

4. For the types of risks identified above, have you either entered or exited (either completely or in part) any particular market since 2000? If so, what markets were affected, and what were the reasons for your actions? Are you planning to soon re-enter any of the above markets?

	Entered	Exited	Comments
legions (wet)			
legions (dry)			
bars & taverns			
volunteer fire departments			
sports & recreation			
trail associations			
boating (incl. canoeing, kayaking)			
festivals & events			
youth related non-profit organizations			
other non-profit organizations (specify)			

5. For the types of risks identified above that you insure, what average rate changes have you taken during each year since 2000?

	2000	2001	2002	2003	2004
legions (wet)					
legions (dry)					
bars & taverns					
volunteer fire departments					
sports & recreation					
trail associations					
boating (incl. canoeing, kayaking)					
festivals & events					
youth related non-profit organizations					
other non-profit organizations (specify)					

6. For the types of risks identified above that you insure, what do you believe will be the direction of rate changes during the rest of 2004 and 2005?

Increasing	Stabilizing	Decreasing	
legions (wet)	☐	☐	☐
legions (dry)	☐	☐	☐
bars & taverns	☐	☐	☐
volunteer fire departments	☐	☐	☐
sports & recreation	☐	☐	☐
trail associations	☐	☐	☐
boating (incl. canoeing, kayaking)	☐	☐	☐
festivals & events	☐	☐	☐
youth related non-profit organizations	☐	☐	☐
other non-profit organizations (specify)	☐	☐	☐

Personal Property

7. Do you insure personal property risks with the following principal sources of heat? Please check Yes or No, and, if Yes, show your approximate 2000, 2001, 2002, and 2003 Nova Scotia written premium.

	Yes	No	2000	2001	2002	2003
wood stoves						
coal						
oil tanks (inside premises)						
oil tanks (outside premises)						

8. Do you insure heritage homes? Please check Yes or No, and, if Yes, show approximate 2000, 2001, 2002, 2003 Nova Scotia written premium.

	Yes	No	2000	2001	2002	2003
heritage homes						

9. For the types of risks identified above, have you either entered or exited (either completely or in part) any particular market since 2000? If so, what markets were affected, and what were the reasons for your actions? Are you planning to soon re-enter any of the above markets?

	Entered	Exited	Comments
wood stoves			
coal			
oil tanks (inside premises)			
oil tanks (outside premises)			
heritage homes			

10. For the types of risks identified above that you insure, what average rate changes have you taken during each year since 2000?

	2000	2001	2002	2003	2004
wood stoves					
coal					
oil tanks (inside premises)					
oil tanks (out side premises)					
heritage homes					

11. For the types of risks identified above that you insure, what do you believe will be the direction of rate changes during the rest of 2004 and 2005?

	Stabilizing	Decreasing	
Increasing			
wood stoves	☐	☐	☐
coal	☐	☐	☐
oil tanks (inside premises)	☐	☐	☐
oil tanks (outside premises)	☐	☐	☐
heritage homes	☐	☐	☐

Appendix-Exhibit 12 - General Agents to Whom Questionnaire Was Sent

Specialty Writers	**Date Sent**	**Response**	**Date Received**
Ecclesiastical (insurer)	Aug. 6, 2004	Yes	August 13, 2004
Elliott Special Risks	Aug. 6, 2004	Yes	August 25, 2004
Encon Insurance Managers	Aug. 6, 2004	No (not applicable)	
Fairway Insurance	Aug. 6, 2004	No (broker)	
Grain Insurance	Aug. 6, 2004	Yes	August 18, 2004
K & K Insurance	Aug. 6, 2004	Yes	August 30, 2004
Knox Vicars McLean	Aug. 6, 2004	Yes	August 11, 2004
P.A.L. Insurance	Aug. 6, 2004	Yes	August 2004
Sports-Can Insurance	Aug.13, 2004	Yes	September 7, 2004
Totten Insurance	Aug. 13, 2004	Yes	August 20, 2004
All Sport Insurance	Aug. 13, 2004	Yes	August 30, 2004
Atlantic Marine Underwriters	Aug. 6, 2004	Yes	August 25, 2004
South Western Insurance Group	Aug. 6, 2004	Yes	August 25, 2004
The Wholesale Insurance Group	Aug. 6, 2004	Yes	August 9, 2004

Appendix-Exhibit 13 - General Agents That Were Contacted by Telephone

All-Sport Insurance

The Wholesale Insurance Group

K&K Insurance

Atlantic Marine Underwriters

Totten Insurance

Grain Insurance

Sports-Can Insurance

Ecclesiastical Insurance (insurer)

South Western Insurance Group

Appendix-Exhibit 14 - Orders In Council

Order Number	2003-154
Date of Order	2003/Apr/04
Statute	Provincial Finance Act Children and Family Services Act
Text of Order	The Governor in Council on the report and recommendation of the Minister of Community Services dated April 3, 2003, and pursuant to Section 59C of Chapter 365 of the Revised Statutes of Nova Scotia, 1989, the Provincial Finance Act, is pleased to authorize the Minister of Community Services to provide an indemnification of liability in the form attached to and forming part of the report and recommendation as Schedule "A", or in such other form as may be acceptable to the Attorney General, to Children's Aid Society and Family Services of Colchester County and to any other agency established pursuant to Section 8 of Chapter 5 of the Statutes of Nova Scotia, 1990, the Children and Family Services Act, whose commercial liability insurance is cancelled and which is unable to obtain commercial liability insurance on terms and conditions acceptable to the agency and the Province from another source, effective from the date of cancellation in each case until cancelled or revoked by the Minister but in any event terminating no later than December 31, 2003.
Departments	Community Services
Amends	None
Amended By	None

Order Number	2003-213
Date of Order	2003/May/09
Statute	Children and Family Services Act Provincial Finance Act
Text of Order	The Governor in Council on the report and recommendation of the Minister of Community Services dated May 7, 2003, and pursuant to Section 59C of Chapter 365 of the Revised Statutes of Nova Scotia, 1989, the Provincial Finance Act, is pleased to authorize the Minister of Community Services to provide an indemnification of liability in the form set forth in Schedule "A" attached to and forming part of the report and recommendation, or in such other form and with such other conditions as may be acceptable to the Attorney General and the Minister of Finance, to the Nova Scotia Home for Coloured Children and to any other child-caring facility licensed pursuant to Section 15 of Chapter 8 of the Statutes of Nova Scotia, 1990, the Children and Family Services Act, whose liability insurance coverage is cancelled or terminated and which is unable to obtain commercial liability insurance on terms and conditions acceptable to the child- caring facility and the Province from another source, effective from the date of cancellation or termination in each case until cancelled or revoked by the Minister, but in any event terminating no later than December 31, 2003.\x0D\x0A
Departments	Community Services
Amends	None
Amended By	None

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Departments	Community Services
Amends	None
Amended By	None

Order Number	2003-213
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Departments	Community Services
Amends	None
Amended By	None

Appendix-Exhibit 15 - Commercial Liability Statistical Plan - Ontario

ISSUE

Why is data collected under the Commercial Liability Statistical Plan (CLSP)?

BACKGROUND

In response to recommendations made in 1986 by the Ontario Task Force on Insurance, the Government of Ontario initiated efforts to develop a comprehensive statistical database for non-automobile liability insurance and to mandate the collection of specific data in respect of non-automobile commercial lines of business. The Ontario Task Force had indicated that it was clear that the origin of the crisis in liability insurance was due to the extreme uncertainty associated with underwriting certain liability risks. The CLSP was developed and implemented effective January 1, 1990.

Role of the Statistical Agent

Each insurer licensed in the Province of Ontario to underwrite general liability and automobile insurance must submit its premium and loss experience to the statistical agent designated by the Superintendent in a form approved by the Superintendent. Section 101 (1) of the Insurance Act states "licensed insurers shall prepare and file with the Commission or with an agency designated by the Superintendent a return respecting the experience of the insurer's business in a form approved by the Superintendent containing such information as the Superintendent may require". The Insurance Bureau of Canada (IBC) has been appointed as statistical agent for the CLSP.

Significance to the Insurance Industry and to the Government

The CLSP was established to provide a reporting system whereby information could be collected from insurers, processed, analyzed and made available to enable the insurance industry and the government / regulator to monitor and forecast availability and affordability trends in general liability insurance. A description of the statistical plan exhibits and reports prepared by IBC and FSCO respectively on an annual basis is attached (see Appendix A).

These Exhibits are particularly useful for insurance companies who are not pre-dominant writers of a particular block of business because their own underwriting experience would not be large enough at the individual coverage / policy form level to be statistically significant by itself. Insurers must rely on an analysis of the industry-wide reported loss experience and then make appropriate adjustments to project losses to an ultimate cost level in order to price their general liability products at a more adequate and equitable level.

The CLSP supports general research activities; namely, the capability to isolate, identify and analyze problems of the recent past; i.e., deteriorating loss experience, impact of underwriting and risk classification procedures used in the recent past. The CLSP provide the regulator with much more detail than is captured on the annual financial statements; namely, capturing of premium and loss experience by type of product, category of insurance, coverage, accident year, experience period and classification detail as well as the reporting of the number of exposures which is not found on annual statements.

These Exhibits provide the government / regulator with a means to review the emerging experience at the major industry coverage / policy form level so that the impact of potential underwriting and affordability problems can be monitored at the aggregate insurance industry level. If another general liability crisis were to occur in the absence of the CLSP, then the government would be criticized for failure to have adequate information to identify factors leading to the crisis.

The CLSP was developed because agents and brokers had difficulty finding an insurer who would underwrite certain classes of liability insurance due to the expectation that the underwriting experience would be very unfavourable. Manufacturers, exporters, day care centres, municipalities, school boards, architects, engineers, doctors, chartered accountants, directors and officers, hospitals, volunteer and charitable organizations were all encountering problems in obtaining liability insurance or were facing significant premium increases. There was no aggregate insurance industry experience available at the time to quantify the magnitude of the perceived underwriting problem.

The property and casualty insurance market in the United States has recently been facing a multitude of class action lawsuits due to exposure to asbestosis, mould, other environmental hazards and now potentially silicosis. The exposure to risk underlying these losses occurred over a period many years ago. In addition, two insurance companies have withdrawn from the life agent and broker errors & omissions insurance market due to unfavourable underwriting experience. Some agents and brokers are predicting continued increase in premium costs and other are signalling the need for drastic changes to the insurance product. The impact on the Canadian property and casualty insurance market needs to be monitored on an annual basis. The CLSP provides a mean to identify underwriting problems of the recent past at the detailed classification level.

There is a trend to more numerous and more costly class action suits and punitive damage claims involving director's and officer's general liability insurance. The CLSP provides an indication of the cost trends in different classes within the liability business.

Limitations with the CLSP

As compared to financial statements, statistical plans take a longer time to collect the information, provide the means to pool the statistical experience of many insurers in the detail required and must be flexible and adaptable to future changes. The CLSP was not designed to solve short-term problems due to the long term nature of the commercial liability business. General liability claims take many years before they are fully developed. The loss development database captures information on all general liability insurance claims starting with the claims occurring during the 1990 calendar accident year.

The IBC have been asked to project the losses reported under the CLSP onto an ultimate cost level.

There has not been any major change made to the CLSP. Lloyds have indicated that their underwriters and syndicates does not make any use *of* the CLSP to support underwriting and marketing decisions. Some insurers will price commercial automobile, general liability and property insurance based on the historical experience of the larger commercial enterprises alone. All insurers, regardless of size, are responsible for keeping adequate and up to date systems in place to support all of their underwriting, policy processing, claims handling and statistical plan reporting requirements. We do not believe that reporting to the Commercial Liability Statistical Plan in Ontario represents an administrative burden to any general liability insurer and puts them in a competitive disadvantage, as compared to other insurers.

Appendix A

Description of the Commercial Liability Statistical Plan Exhibits and Reports Prepared by FSCO

5.1 Analysis by coverage / policy form exhibit

The Analysis by coverage / policy form exhibit provides a comparison of the loss and allocated loss adjustment expense payments and individual case reserve estimates for the five most recent accident years reported as of the previous calendar year-end to the corresponding premiums earned for each of the following general liability coverages:

- comprehensive / commercial general liability coverages with coverage for products and completed operations liability
- comprehensive / commercial general liability coverages without coverage for products and completed operations liability
- tenants legal liability
- umbrella, excess and wrap-up liability
- directors' and officers' liability
- other professional liability
- pollution liability
- employer's and contractual liability

5.2 Analysis by major class exhibit

The Analysis by major class exhibit for the previous calendar year-end provides a comparison of the loss and allocated loss adjustment expense payments and individual case reserves for the five most recent accident years reported as of the previous calendar year-end to the corresponding premiums earned for each of the following major classes:

- business and professional services
- construction, erection and installation services
- education services
- farming services
- government services #
- health services
- hospitality services
- hunting and fishing
- logging services
- member organization services
- manufacturing / processing services
- mining services
- real estate property
- recreation services
- retail services
- transportation services
- utilities services
- warehousing services
- wholesale services

municipal liability services are defined by industry classification codes 8940 through 8949

5.3 Distribution of large incurred losses by policy form / coverage within major class exhibit

This exhibit provides the distribution of the number and amount of all reported losses for the five most recent accident years which exceed $200,000, $500,000 and $1 million and supplements the Analysis by Policy Form / Coverage and the Analysis by Major Class exhibits.

5.4 Industry code exhibit

The Analysis by industry code exhibit for the previous calendar year-end provides a comparison of the loss and allocated loss adjustment expense payments and individual case reserves for the five most recent calendar accident years reported as of the previous calendar year-end to the corresponding premiums earned for each of the four digit industry code classifications and supplements the Analysis by Major Class exhibit.

5.5 Distribution of large losses by industry code exhibit

This exhibit provides the distribution of the number and amount of all reported losses for the five most recent accident years which exceed $200,000, $500,000 and $1 million and supplements the Analysis by Industry Code exhibit.

5.6 Analysis by policy limit exhibit

This exhibit provides a breakdown of the amount of reported losses by policy limit purchased for claims occurring in each accident year separately and supplements the analysis by coverage and policy form exhibits.

5.7 Analysis by claim location exhibit

This exhibit providing a breakdown of the amount of reported losses by province / out of Canada for claims occurring in each accident year separately and supplements the analysis by coverage and policy form exhibits.

5.8 Size of loss distributions exhibit

This exhibit provides a breakdown of the amount of reported losses at the coverage code level and at the more detailed kind of loss code level by accident year and supplements the analysis by coverage and policy form exhibits.

5.9 Analysis of paid losses by type of expense exhibit

This exhibit provides a breakdown of the amount of paid losses split into four expense types: legal, expert, adjuster / investigator and other fees and supplements the analysis by major class and coverage / policy form exhibits.

5.10 Loss development exhibit

This exhibit provides an analysis of the reported loss development patterns by accident year by report year by major class starting with claims occurring in the 1990 accident year.

5.11 Market share distributions

Based on a data file supplied by IBC, FSCO Statistical Services have compiled market share analysis by coverage / policy form and by major class exhibits sorted by company in alphabetic order and according to market share. An advance copy was been given to the Manager, Ombudsman Services.

5.12 Charts depicting experience by major coverage /policy form

After we have received the data from IBC as of the 2003 year-end, FSCO Statistical Services will update the Charts illustrating the premium and reported loss experience by calendar / accident year by major coverage / policy form.

5.13 Charts depicting experience by size of loss band

After we have received the data from IBC as of the 2003 year-end, FSCO Statistical Services will update the Charts illustrating the loss development patterns by calendar / accident year for claims with a pure loss amount in excess of $200,000, $500,000 and $1 million.